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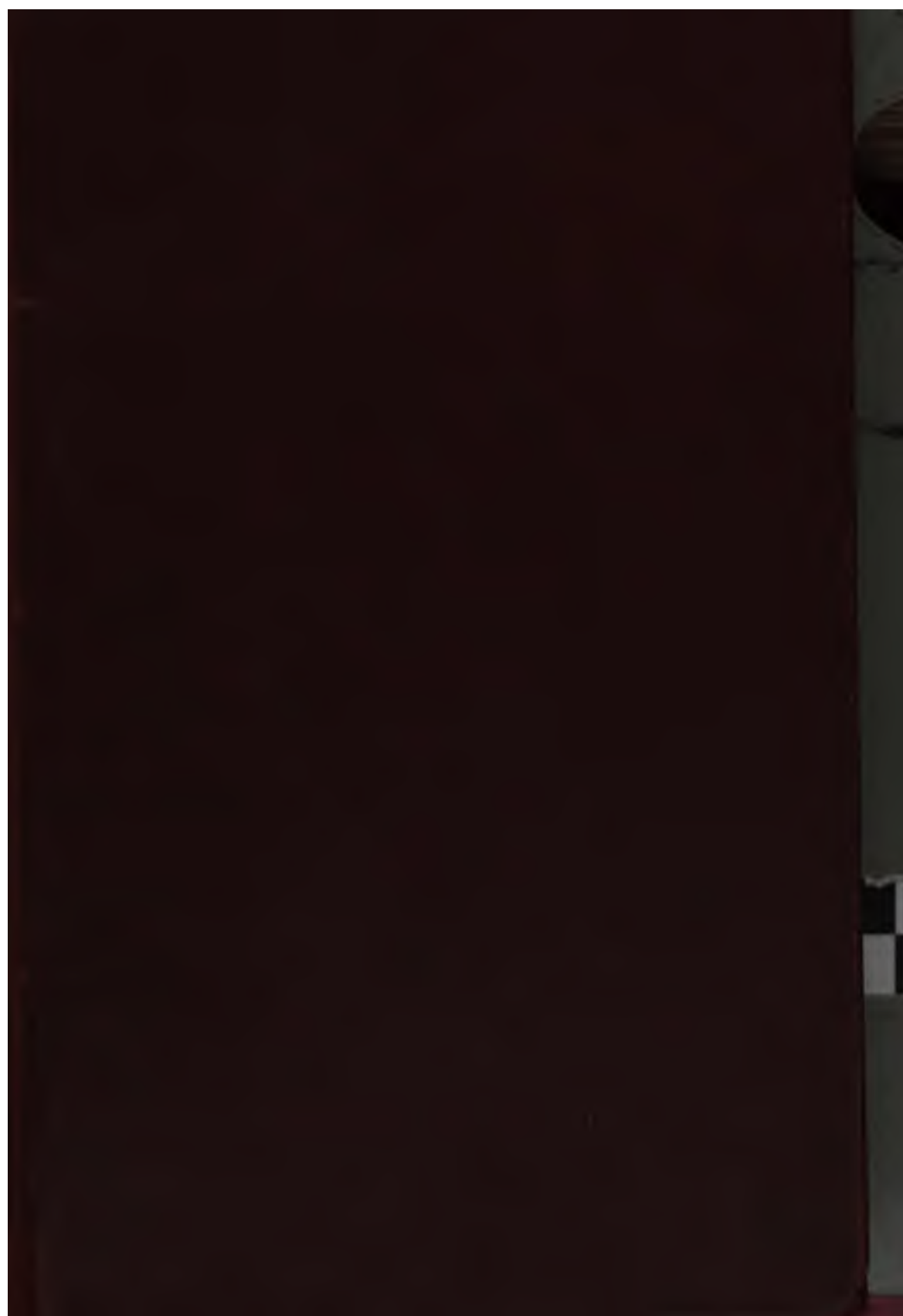
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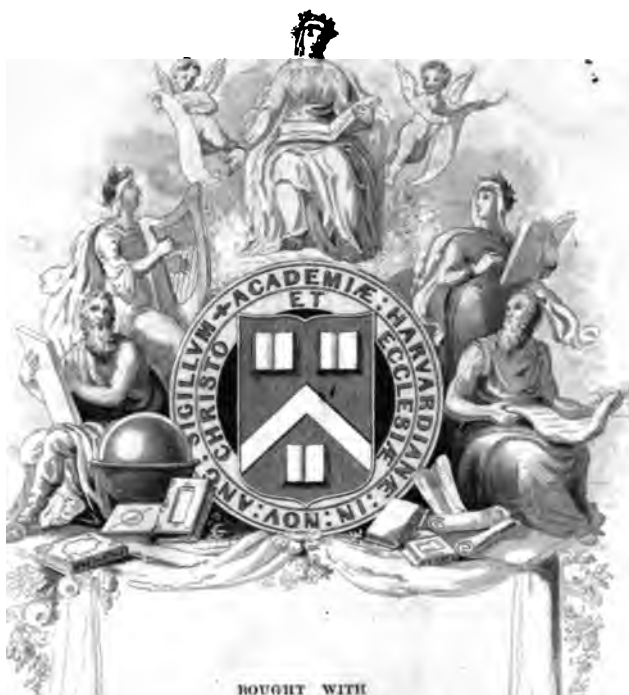
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THOMAS LEE,
Of Brookline, Mass.

Received 7 Feb., 1959.

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Of Brookline, Mass.

Received 7 Feb., 1859.

TRACTS, &c.

OR

METALLIC AND PAPER

CURRENCY.

TRACTS
AND OTHER PUBLICATIONS
ON
METALLIC AND PAPER
CURRENCY.

BY
Samuel Jones Loyd, 1st Baron
THE RIGHT HON. LORD OVERSTONE.

LONDON:
LONGMAN, BROWN, AND CO.
MDCCCLVIII.

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1859. Feb 7.

Gift of

Thomas Lee. Esq.
of Boston.

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serving any good purpose. I have, therefore, abridged it. But I have endeavoured to do this without altering in any degree its character or that of the cross-examination.

I have also abridged the evidence of Lord Overstone before the Lords' and Commons' Committees of 1848 on Commercial Distress, by leaving out some passages which had reference only to temporary or unimportant matters. Otherwise it is given entire.

To prevent misconception, it may be proper to state that Lord Overstone is in no wise responsible for anything connected with this publication, except in permitting it to take place. He has neither seen one of the proof sheets nor this notice.

J. R. M.

LONDON,
January 1857.

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REFLECTIONS

SUGGESTED BY A PERUSAL OF

MR. J. HORSLEY PALMER'S PAMPHLET

ON THE

CAUSES AND CONSEQUENCES

OF THE

PRESSURE ON THE MONEY MARKET.

LONDON :

1837.

REFLECTIONS,

ETC., ETC.

I. THE Legislature, in ordering the publication of the accounts of the Bank, had two objects in view: first, To enable the public to exercise some judgment upon the general course pursued by the Bank Directors, and thus to place their proceedings, to a certain extent, under the control of public opinion; and, secondly, By furnishing the public with a knowledge of the fluctuations which were taking place in the amount of Bank-notes in circulation, or of specie in deposit, to enable them to foresee approaching pressure, and by timely precautions to diminish the intensity of its action and to mitigate its effects. Now, from the accounts as published, it appears that the Bank has deviated from all the rules by which it professes to be guided, and which a regard to sound principle requires it to adhere to. By these accounts it appears that the amount of securities, so far from being kept at a fixed point, has fluctuated largely; it also appears that the circulation has in some instances increased whilst the specie has been diminishing; and from the same accounts it will be very difficult to make out that

steady and continual contraction of the circulation month by month during the diminution of specie in store, upon which alone any plausible ground of censure upon the proceedings of the Joint-Stock Banks can be founded. But we are told in a pamphlet, explanatory of the action of the Bank, and written by one of the most influential of the Directors of that Establishment, that, upon the data furnished by the accounts as published, no safe conclusions can be founded; that other explanatory circumstances and considerations, not officially laid before the public, must be taken into the account; and that, when due allowance has been made for these, conclusions will arise not only differing from, but diametrically the reverse of those to which every person must come upon the inspection merely of the published accounts. It will, in fact, according to the additional explanations given by Mr. Palmer, be found that the Bank has strictly adhered to the rules which it laid down for its own guidance, that its securities have been, as was proposed, kept at an invariable amount, that its liabilities have been diminished in strict correspondence with the diminution of its specie, and that the contraction of its circulation has been of that steady and regular character which justifies the Bank in complaining of the counter-action, in this respect, of the Joint-Stock Banks. In short, the explanations of Mr. Palmer are all directed to show that the conclusions to which the public ought to come, with respect to the conduct of the Bank, are the very opposite to those to which they cannot but come upon the examination simply of the published accounts. Those have undoubtedly led

active and inquiring minds, as is abundantly shown by various publications (of which it is hardly necessary to enumerate more than the Letter of Colonel Torrens, and the laboured and ingenious articles on this subject which occasionally appear in the Times,) to conclusions the very reverse of those which are established, according to Mr. Palmer by a full exposition of the accounts of the Bank. That the published accounts are not only insufficient for the purpose of instructing and guiding the public, but that they are, when unaccompanied with further explanation, the actual means of misleading them, is the fundamental proposition of Mr. Palmer's pamphlet; and unless this be fully admitted, his defence of the Bank must at once fall to the ground. Surely this is an evil of no trifling magnitude, requiring immediate correction; in effecting which the Bank ought to be the prominent agent. If the accounts, as now published, are, according to their own statement, a false representation of the action of the Bank, and calculated only to mislead, it is a duty incumbent upon the Directors of the Bank to take some means of laying before the public such accounts as shall give a correct view of their proceedings, and be calculated to lead the public to safe and true conclusions.

II. But it may not be amiss to examine a little more closely into the nature of those explanatory circumstances and considerations upon which Mr. Palmer relies for the correction of the conclusions which obviously arise from the published accounts.

The principle upon which the Bank professes to be guided in the regulation of the currency is this: to meet

its outstanding liabilities consisting of circulation and deposits, it holds at its disposal securities and specie, and its principle of action is, to keep the amount of its securities fixed, and to leave any variation in the amount of circulation and deposits to be balanced by a corresponding variation in the amount of specie. This principle was set forth by the Bank Directors in their evidence before the Parliamentary Committee previous to the last renewal of the Charter, and was recommended principally upon the ground that the effect of it would be to render the Bank a passive agent, and that all variations in the amount of specie would thus become the result not of any direct action on the part of the Bank, but solely on that of the public. If they demanded specie, it could be obtained only by paying in notes or diminishing deposits; and if, on the other hand, the specie was increased, there must at the same time be a corresponding increase in the amount of circulation or deposits. Under this view of its probable action, the principle above stated met with a degree of acquiescence which a more close examination of the subject will hardly warrant.

The Bank, it must be observed, acts in two capacities; as a manager of the circulation, and as a body performing the ordinary functions of a banking concern. The duties of these two characters, though very often united in the same party, are in themselves perfectly distinct. In the principle laid down by the Bank for its own guidance, the separate and distinct nature of these two characters has not been sufficiently attended to. The rules applicable to its conduct as a manager of the currency are mixed with the

rules applicable to its conduct as a simple banker, and the rule or principle under discussion is the result of this mixture. As a manager of the currency it is undoubtedly a sound rule by which to guide itself, that against the amount of notes out it shall hold at its disposal securities and specie; that the amount of securities shall be invariable, and that consequently all fluctuations in the amount of notes out shall be met by a corresponding fluctuation in the amount of specie in deposit; thus the public and not the Bank will be made the regulators of the amount of the circulation, and that amount will by this principle be made to fluctuate precisely as it would have fluctuated had the currency been purely metallic.

For the regulation of the conduct of the Bank as a manager of the currency, this rule is perfectly unobjectionable, and rests indeed upon the soundest principles.

But when the same rule is further applied to the regulation of its conduct as a banking concern, it is necessarily found to be wholly impracticable. It is in the nature of banking business that the amount of its deposits should vary with a variety of circumstances; and as its amount of deposits varies, the amount of that in which those deposits are invested (*viz.* the securities) must vary also. It is therefore quite absurd to talk of the Bank, in its character of a banking concern, keeping the amount of its securities invariable. The reverse must necessarily be the case. The proof of this is very striking in the case now under our consideration. In the published account the variation in the amount of securities held by the Bank is very great; and when we turn to Mr. Palmer's pamphlet

to learn how this is to be reconciled with the principle of action professed by the Bank, we are told that to understand this we must look much further than to the published accounts; that we must analyse the nature of the deposits against which the securities are held, and that one class of those deposits being peculiarly of a temporary nature, must, on that account, be entirely thrown out of the account, and of course also the securities held against it. By this process a new table of securities is produced which exhibits their amount much more nearly approaching to steadiness.

But this mode of getting rid of a certain part of the deposits and securities with a view of obtaining a table which shall exhibit a desired result is not satisfactory, because it does not rest upon any distinctive principle. The deposits in the hands of the Bank left there by different classes of the community, and arising out of different circumstances, may no doubt differ in respect to their probable permanency and variation of amount, but these are only differences of degree, and make no essential difference upon principle in their nature or character. They are all equally banking deposits, liable to those variations in a greater or less degree which are incidental to such deposits.

The course adopted by Mr. Palmer is a mere arbitrary mode of making up an account to exhibit a desired result. There is no real distinction between these deposits by which he can justify the plan of removing one class of them from the operation of a principle to which he still holds the other classes to be subject; the fact is that the

principle is applicable only to the management of the currency, and is totally inapplicable to the management of banking deposits. By applying the principle to the aggregate result of the two classes of business, the Bank arrives at a rule the possible consequences of which are of the most serious nature.

The rule is, "that the securities being kept equal, any diminution in the amount of specie may be met by a corresponding decrease in the aggregate amount of circulation and deposits." The possible consequence is, that a large diminution of specie may take place, and be met, not by a corresponding decrease of circulation, but solely by a decrease of deposits. Thus a heavy drain upon the treasure of the Bank might take place under this rule without any contraction of the currency by which that drain is to be checked or the Bank to be protected.

To those who are practically conversant with banking business, or who have reflected upon the nature of it, it can hardly be necessary to point out the simple consideration, that banking deposits are necessarily variable in their amount and duration, and that with such variations the amount of securities held by the Bank will also fluctuate. It is therefore unreasonable to talk of the invariable amount of a banker's securities, and this observation is equally applicable to banking business when conducted by the Bank of England, as when it is conducted by any other body.

On the other hand, I apprehend there will be no difference of opinion amongst those who have reflected upon the principles of paper currency, as to the soundness of

the rule—that the amount of paper issued shall be represented by an amount of securities which never varies, and an amount of specie which is left to fluctuate with the fluctuations of the amount of notes out.

If these views be correct, it follows that the rule now adopted by the Bank is incorrect and cannot be safely relied upon in the management of the currency. The rule ought to be, That the variations in the amount of circulation shall correspond to the variations in the amount of bullion, and the adherence of the Bank to this rule ought to be obvious upon the face of the published accounts. By this means, and by this means only, can we obtain “a paper circulation varying in amount exactly as the circulation would have varied had it been metallic;” and in addition to the establishment of this only sound principle of currency, we shall obtain a simple and intelligible account, requiring no further explanations nor the production of any information not at the command of the public, to enable them to come to a correct understanding of it.

Was the management of the currency entrusted to a body established exclusively for that purpose, this is the rule by which such body must govern its operations. It is only by an adherence to such a principle that a paper-circulation can be made to vary in amount precisely as the circulation would have varied had it been exclusively metallic. The importance of a rigid adherence to this rule cannot be over-estimated: and if it be incompatible, as is alleged by some, with the mixed functions of the Bank of England, it seems to become a very serious question, whether it is not better to separate altogether the

business of banking from that of regulating the currency, rather than suffer so essential a rule to be in any degree compromised. It is not, however, very easy to perceive any insuperable difficulty in rendering the currency department of the Bank of England totally distinct and separate from the management of its other business ; so that the one should not interfere with or affect the other more than they would do were they under the control of different bodies. In proportion as these two functions are kept distinct, will each be rendered more effectual for its proper purpose. The two branches of the business of the Bank thus divided will proceed with equal efficiency and without mutual interruption. Like those animals described by naturalists, whose peculiar property it is that, when cut into two parts, they move off in opposite directions, each half equally full of life and energy ; thus, if the two natures of the Bank of England were completely dissociated, each would proceed to the discharge of its respective functions with more simplicity and efficiency, unencumbered by the conflicting tendencies and opposite action of its former companion.

III. Another important topic alluded to in Mr. Palmer's pamphlet, and certainly entitled to very serious consideration, is—

The effect of the Joint-Stock Banks, to whose misconduct in the regulation of their issues he attributes the peculiar severity of the pressure upon the mercantile world during the last few months, when contrasted with the very different result in this respect which occurred under a similar loss of bullion and contraction of Bank

issues in 1832. Indeed, Mr. Palmer goes the length of doubting whether the Joint-Stock Banks in their present form and the Bank of England can co-exist.

It is not intended in these remarks either to make a general attack upon the conduct of the Bank of England, or to undertake the defence of the Joint-Stock Banks : whatever may be the evil consequences to the public interest arising from the errors of either party, it will probably be found upon an impartial investigation that those errors are more justly attributable to the false position in which the respective parties have been placed by unwise legislation, than to the want of that degree of vigilance, knowledge, or integrity which might be reasonably expected from them.

For instance, we impose upon the Bank of England the duty of regulating the value of the currency, and providing for the payment of the whole of it in specie, without giving to that body the exclusive power of issuing the paper-money, or investing it with any direct control over the conduct of rival issuers. We look to the Bank for a strict regulation of the amount of its issues according to the state of the exchanges and the drain for bullion, whilst at the same time we very inconsistently look to it also as responsible for the maintenance of public credit in a period of pressure.

We thus unite in the same body functions which it can be easily shewn, are in many cases conflicting, and, therefore, incompatible, viz., those of ordinary banking business and of regulating the amount of a paper currency. And lastly, to perform these very delicate duties, in every

step of which the personal interests of the mercantile, trading, and money classes must be immediately affected, we select, not a body of individuals qualified (by their total separation from all such interests) to exercise a dispassionate and disinterested judgment ; but, on the contrary, men the most largely engaged in mercantile and monied operations, and, therefore, more than any other class exposed in their private interests to the immediate effects of any action upon the currency.

Again, with respect to Joint-Stock Banks, we create by law large and powerful establishments, to which is given the right to issue paper-money without any absolute restriction ; and even that knowledge of the action of the Bank which is essential to enable them to take a just view of the condition of the currency and of their corresponding duty, is afforded to them only through such imperfect and delusive accounts as those published by the Bank are represented by the Bank Directors themselves to be.

Such is the imperfect and inconsistent nature of our legislation with regard to these respective bodies. We impose upon them different and often conflicting duties ; we withhold from them powers commensurate with the duties required ; we place them in circumstances which necessarily give rise to interests and motives at variance with the strict discharge of these duties ; and yet whenever these duties are in any respect imperfectly discharged, we are too ready to direct against the administration of these bodies that censure which ought more properly to fall upon that short-sighted legislation which has placed such bodies in a false position.

If the Bank of England has not contracted its issues in strict and undeviating conformity with the diminution of its specie, how can we reasonably be surprised at or complain of this result when we have suffered that body to blend with this simple and distinct duty a variety of other very different, and, in some respects conflicting functions, and have exposed it to the action of influences and temptations which are calculated to divert it from the sole contemplation of that purpose?

Or if the Joint-Stock Banks have failed to regulate their issues by the state of the exchanges, and the drain for bullion upon the Bank, can we be surprised at this when in legislating for these concerns we have neither subjected them to any adequate motive for so regulating their issues, nor afforded them any certain means of obtaining that knowledge (respecting the state of the Bank accounts as regards currency) which is absolutely necessary for enabling them to do so?

The action of both these bodies appears to have been perfectly consistent with that which might fairly be anticipated as the almost certain result of the nature of our legislation respecting them. Their conduct may fairly be said to be that which legislation has made it; and in examining its defects, it is of the utmost importance that we should keep our attention steadily fixed upon the true cause of those defects.

IV. But in the present case it is necessary to examine a little more closely the evidence by which the charge against the Joint-Stock Banks is supported. The charge is of a very serious nature; that of being on the present

occasion the sole and entire cause of the peculiar pressure on the mercantile community, and of being incompatible in their nature with the existence of the Bank of England. The only fact stated by Mr. Palmer in support of these assertions is, that between the periods of March, 1834, and July 1836, the issues of the Joint-Stock and Private Banks had been increased 25 per cent., while those of the Bank of England had been diminished in a nearly equal proportion. This fact is here stated in rather too general a manner to enable us to deduce from it any very certain conclusions; it would have been more satisfactory had Mr. Palmer given us a more detailed statement of the progress, month by month, or even week by week, of that diminution of the Bank issues, with a corresponding table of the state of their bullion.

More especially, such a statement would have been desirable for the last year (1836), that being the period during which the proceedings of the Bank require to be most minutely scrutinized. The reduction in the bullion of the Bank principally took place from April to September last. What was the action of the Bank week by week during that period and for some months previous to it? This information Mr. Palmer does not give us, and without this it does not seem possible to decide how far his charge in the present instance against the Joint-Stock Banks is sustainable. They may very possibly *for a time* expand their circulation, whilst that of the Bank is undergoing contraction, and so far we may admit that their power is a vicious one; but the really serious and vital question is somewhat different from this. Is it possible

for the Joint-Stock Banks to maintain an expansion of their issues *for any permanency* in the face of a *regular, steady, and undeviating* course of contraction on the part of the Bank; or will such a course on the part of the Bank bring the subordinate issuers into such a situation that a corresponding change in their issues becomes inevitable? A correct determination of this question is a matter of the greatest importance, and it is much to be regretted, with this view, that Mr. Palmer has not furnished us with minute and detailed accounts of the action of the Bank, from December 1835, to the present time. Such accounts when produced may possibly substantiate his case. But the information to be derived from the very imperfect statements given us, does not tend to this conclusion:—

Dec. 29, 1835	...	London circulation, £13,800,000
March 29, 1836	....	Do. 14,400,000
June 28, 1836	....	Do. 14,200,000

This statement does not look like that *steady* and *undeviating* contraction of their issues which can justify the Bank in complaining of any counteraction on the part of the Joint-Stock Banks as a thing entirely beyond their control, and so independent of them as to menace their existence.

This view of the matter seems to gain additional strength when we look to the issues of the Branch Banks:—

Dec. 29, 1835	....	Branch Banks, £3,400,000
March 29, 1836	....	Do. 3,600,000
June 28, 1836	....	Do. 3,700,000

By this statement it appears that the country issues of the Bank were themselves increasing at the period during which the Bank complains so severely of the increased issues of its rivals.

In the face of these statements we are not warranted in coming to the conclusion that the action of the Joint-Stock Banks is utterly beyond the control of the central issuer; the Bank must first prove that it has really tried the effect of a steady and uninterrupted course of contraction, and that in face of this the issues of the Joint-Stock Banks have as steadily increased. Such may be the case; but Mr. Palmer's pamphlet has not furnished us with any evidence of it, and the information, imperfect and unsatisfactory as it is, which he does give us, directly tends to the opposite conclusion.

V. The following is a statement of the circulation and bullion of the Bank, as given in the monthly returns which are published in the Gazette, from January 1836 to February 1837 inclusive.

1836.	Circulation.	Gold.
Jan. 12	£17,262,000	£7,078,000
Feb. 9	17,427,000	7,498,000
March 8	17,739,000	7,701,000
April 5	18,063,000	7,801,000
May 3	18,154,000	7,782,000
May 31	18,051,000	7,663,000
June 28	17,899,000	7,362,000
July 26	17,940,000	6,926,000
Aug. 23	18,061,000	6,325,000
Sept. 20	18,147,000	5,719,000
Oct. 18	17,936,000	5,257,000
Nov. 15	17,543,000	4,933,000

1836.		Circulation.		Gold.
Dec. 13	....	17,361,000	....	4,545,000
1837.				
Jan. 13	....	17,422,000	....	4,287,000
Feb. 10	....	17,868,000	....	4,032,000

Upon an inspection of this table we cannot fail to remark—

1. That the circulation is considerably higher at this moment than it was in January 1836, although during this period the bullion has undergone a very large diminution.

2. That the circulation continued steadily to increase from January 1836 up to May, and that even in September it was at the same amount at which it stood in May, although the drain of bullion was by Mr. Palmer's acknowledgment in full force from April to September.

3. That there does not appear to have been any effectual reduction of circulation subsequent to the rise of interest upon Exchequer Bills, although this measure was loudly called for as necessary to enable the Bank to realize its securities, and thus *reduce its issues*. But as the issues do not appear to have been reduced, we must conclude that this measure has only served to enable the Bank to sell its Exchequer Bills and increase its discounts, thus forcing upon the Chancellor of the Exchequer a rise in the rate of interest upon his unfunded debt instead of charging an increased rate of discount upon commercial bills. But to return to the above table: we would ask any reflecting person to look first to the column of bullion, and mark its regular and rapid decrease; then

to compare with this the column of circulation, terminating with a larger amount than that with which it commences, and having done so, to declare whether he discovers any evidence of the Bank having made the amount of its circulation to fluctuate as it would have done had it been purely metallic; or whether he can perceive, during the drain of bullion which commenced in April, or during the months which immediately preceded that event, any signs of that steady and undeviating contraction of circulation on the part of the Bank, on which alone any just objection to the conduct of the Joint-Stock Banks can be founded? It is not a satisfactory reply to this question to say "that the diminution of bullion has been met by a diminished amount of deposits." If the Joint-Stock Banks see, by the published returns, that the circulation of the Bank is maintained at its full amount, they are warranted in concluding that there is no real call for a diminution of their issues, notwithstanding that some of the depositors in the Bank may have thought proper to draw from it a portion of their funds. Indeed, the Bank is not entitled to calculate at all upon the long-sightedness or prudence of the Joint-Stock Banks, but ought to rely solely upon the influence which a steady and continuous course of contraction on her part must exercise upon the proceedings of her subordinate rivals. This it is clear she has not done from January 1836 to February 1837, and therefore she appears to be without any sufficient ground for attributing the whole or the greater portion of the existing derangement to their misconduct. If they have done wrong, it appears to have been from the want of

that controlling action on the part of the Bank of England which she might have exerted and has not.

Take another instance; in the quarterly average published on 15th November 1836, we find

Circulation	....	....	£17,543,000
Deposits	....	....	12,682,000
Total	....	....	£30,225,000
Bullion	....	....	£4,933,000

And in the quarterly average published on the 7th of February last, we find

Circulation	....	....	£17,868,000
Deposits	....	....	14,230,000
Total	....	....	£32,098,000
Bullion	....	....	£4,032,000

By contrasting these statements we find an increase in the aggregate amount of circulation and deposits to the extent of £1,800,000, an increase in deposits alone of £1,450,000, and on the other side a decrease of bullion £900,000. If a decrease of bullion is to be considered as sufficiently compensated by a corresponding decrease in the aggregate of circulation and deposits, it must surely follow as a necessary consequence that an increase in the aggregate of these two ought to be met by a corresponding increase of bullion.

In this statement we find a remarkable violation of all the supposed rules of the Bank. A large diminution of bullion is met not by a contraction but by an increase of circulation; and the force of this consideration is greatly

augmented by the fact that this increase of circulation is accompanied by a remarkable increase of deposits.

And again, if we look to the securities, supposed to be kept invariable, we find in the same publications

November, 15	Securities	....	£28,134,000
February 7	„	....	31,085,000

notwithstanding that it is generally understood that between these two periods a large sum lent by the India Company to the Bank had been paid off (in January), which repayment ought to produce a corresponding diminution in the amount of securities in the February return.

We must remember, however, that between these two periods the Bank had been induced, under very peculiar circumstances, to extend aid to a large amount to embarrassed concerns. The propriety of such interference on her part we will not now discuss ; if it be done out of her own legitimate resources, she is entitled to the free exercise of her discretion ; but if it be done by an abusive use of her power over the circulation, by increasing its amount when all regard to principle would require her to diminish it, her conduct cannot be defended. Upon that supposition it becomes an unfortunate example of the effect of combining banking operations with the management of the currency, and exposing a public body to be drawn by motives arising out of one branch of business from that line of conduct which a due regard to her other duties would dictate.

VI. It may perhaps be right to guard against the

impression that in any of the preceding remarks it has been intended to countenance the idea, that the country issuers have not been guilty of a mismanagement of the circulation, by increasing their issues under circumstances which required an opposite procedure on their parts. This fact admits of no denial ; it is obvious upon the first view of the returns as published in the Gazette.

December 1835 Bullion	....	....	£6,626,000
December 1836 "	....	....	4,545,000
Decrease	....	....	£2,081,000

Here is a large decrease of the amount of bullion between Dec. 1835 and Dec. 1836, and the circulation ought to have undergone a corresponding contraction, each issuer diminishing his issues in a due proportion. Now let us turn to the published returns of the issues of the Private and Joint-Stock Banks.

December 1835	....	....	....	£11,134,414
December 1836	....	....	....	12,011,697
Increase	....	....	....	£877,283

Here is an increase of the country issues where there ought to have been a decrease, and therefore an abuse of their power over the circulation by the Private and Joint-Stock Banks.

Those parties may certainly plead, according to the principle of Mr. Palmer's reasoning, that the mere fact of a diminished amount of bullion is not necessarily a proof of an undue range of prices or of an unfavourable state of the Foreign Exchange ; that it is no conclusive evidence of a

state of things requiring a contraction of the circulation ; that it may be caused by an internal demand, or by a peculiar, local, and transient cause, acting in some particular foreign country ; they might even plead that if they have not contracted their issues, they have at all events diminished their deposits. But reasonings of this nature appear to be totally untenable. A decrease in the amount of bullion requires a diminution of the circulation. If the drain has arisen from peculiar or local circumstances, and whilst the general state of the exchanges is not unfavourable, a very slight contraction of the circulation will cause an influx of bullion and thus remove the evil ; but if the circumstances of the case should be misunderstood, and the drain, though apparently arising from internal or local causes, should in reality be connected with an improper state of prices and a consequent general tendency to send gold abroad (no improbable supposition) ; in that case any delay in effecting the necessary contraction of the circulation will only tend to defer and prolong the crisis without diminishing its intensity ; and thus the mass of suffering may be augmented, whilst by the temporary abandonment of sound and consistent principles the very basis of the circulation may be exposed to danger. There is an old Eastern proverb which says, you may stop with a bodkin , a fountain, which if suffered to flow will sweep away whole cities in its course. An early and timely contraction, upon the very first indication of excess in the circulation, is the application of the bodkin to the fountain ; commercial convulsion and ruin in consequence of delay, is the stream sweeping away whole cities in its course.

There is another line of defence which the country issuers may adopt, and to which it is more difficult to make a satisfactory reply. They may say, "We are entitled to use our powers according to our own discretion, and to pursue our interest in such manner as we think right. Whether we exercise our discretion prudently or otherwise is a matter between us and our immediate customers only, in which the public has no right to interfere." This at once shows the defective state of our legislation. The law has imposed no absolute restraint upon the action of the country issuers, nor has it subjected them to any adequate motive for regulating their issues upon sound principles. A voluntary and gratuitous adherence to such principles, at the sacrifice of what appears to be, and in many cases really is, individual advantage or convenience, cannot be reasonably expected from them. The only means which the law has established for controlling their issues is through the action of the Bank of England upon its own circulation, and the influence, indirect and imperfect, which that action will exert over the proceedings of the subordinate issuers. We must look, therefore, to the action of the Bank between the periods in question, December 1835 and December 1836; and doing so, we find that the Bank did not during this period contract its own issues!

December 1835	....	....	Circulation, £17,321,000
December 1836	....	....	Do. 17,361,000
Increase			£40,000

Whether this increase of issues by the Bank during a

decrease of bullion be defended as necessary to support public credit, to prevent the occurrence of panic, or as being accompanied by a diminution of deposits, as a substitute; may not the country issuers equally plead the same justification?

VII. An important feature in Mr. Palmer's pamphlet is, the opinion which he seems disposed to maintain, that the late drain of gold from the Bank is not attributable to any derangement of prices and consequent unfavourable state of the exchanges generally; but that the decrease has been almost exclusively caused by the efflux of gold to the United States, and that we may look for a return of that gold, or a large portion of it, at no distant period. If this be a correct view of the true cause of the late drain, the conduct of the Bank under these circumstances, the pressure upon the mercantile world, and the general fall in prices which it is represented to have produced, appear to have been wholly unnecessary; if the drain has not arisen from the improper state of the exchanges, it does not appear in what way measures, the direct tendency of which is to produce an action upon the exchanges, can be calculated to check that drain. Neither upon this supposition can we clearly understand the justice of the complaints against the action of the Joint-Stock Banks, or the transactions upon the Foreign-Stock Market; if the complaint against them can be maintained at all, it must be upon the ground of their unfavourable effect upon the exchanges; but if the only or principal cause of the derangement is not to be found in the general state of the exchanges, then it

appears difficult to fix any large share of misconduct either upon the Joint-Stock Banks or upon the Foreign-Stock Market. Our apprehension however is, that a derangement of prices and consequent disturbance in the balance of trade is in reality very deeply connected with the late drain upon the Bank; indeed, we doubt whether a *continuous* diminution of her bullion can go on except under an unfavourable state of the exchanges; because, unless such be the case, the drain arising from peculiar circumstances in one direction will soon be corrected by a corresponding influx from other quarters. At all events the only safe course is to consider a continuous drain of gold from the Bank as conclusive evidence, without reference to vague and uncertain speculations as to the precise cause of that drain, of the necessity of effecting a corresponding reduction of circulation. It is of great importance that this question should be clearly understood and settled, as nothing can be more dangerous in the management of the currency than a tendency, upon the ground of supposed peculiarities of the circumstances of each case, to suspend the operation of rules which are of a general nature and rest upon unquestionable principles.

The expectation that any important portion of the gold is likely to return from America, seems to us to rest upon very doubtful reasoning. The demand has been produced by an alteration in the relative value of gold and silver in that country, by which gold is rendered a more advantageous medium of payment than it was previously;—and as this cause appears to be permanent in its nature, we do not see with what reason we can expect that the effect,

viz. the detention of gold in that country, will be temporary. If remittances in specie are to come from America, may we not more reasonably expect that they will be made in the depreciated metal, silver?

VIII. We have already adverted to the inconvenience arising from our having to reason upon very broken and imperfect data. The pamphlet of Mr. Palmer is far from giving that full and detailed information respecting the action of the Bank, without which it is impossible to form a correct view of the character and effect of its proceedings. In this respect the pamphlet is lamentably deficient and unsatisfactory. We are told that the issues of the Bank have been reduced nearly 25 per cent. between the month of March 1834, and July 1836; but the simple contrast of the state of the circulation at any two periods, selected with the view of producing a particular result, is far from being sufficient for the intended purpose: we ought to have before us a detailed statement, month by month for the whole of the intervening period, of the amount of the circulation and of the bullion. The one simple duty which the manager of the currency has to perform is, that of making the amount of the paper circulation vary precisely as the amount of the circulation would have varied had it been exclusively metallic. Neither the data afforded to us by Mr. Palmer, nor his reasoning, are sufficient to show that such has been the effect of the measures of the Bank within the period to which he refers, and certainly no reflecting person will be led to such a conclusion by a comparison of the fluctuations of the issues with the fluctuations of the bullion as

published in the monthly official returns. And yet, unless the Bank can clearly demonstrate that it has acted upon this principle, it must necessarily fail in making out a good defence for itself, and in establishing the heavy accusations it has brought against its rival issuers. We want more full and complete data; until these are furnished, reflecting persons will suspend their decision, or if compelled to give a verdict upon the case of the Bank as set forth in the pamphlet of Mr. Palmer, it must undoubtedly be that of "Not Proven."

These discussions respecting the action of the Bank, the doubts so generally prevalent as to the extent to which she has adhered to her strict line of duty in the management of the currency, and the apparent impossibility of coming to a satisfactory decision of this point, may be attributed almost entirely to the very imperfect and insufficient nature of the information which she lays before the public. To the same cause may be also referred the very unreasonable and inconsistent expectations entertained by a large portion of the public with respect to her power and duty in the regulation of the currency and the support of public credit. The system of communicating any information whatever regarding the accounts commenced only with the last renewal of her charter; and the beneficial effects of the experiments are already very apparent in the increasing tendency of the public to direct their attention to those accounts, and to watch, with the view to the due regulation of their own transactions, the influence of the exchanges upon the circulation of the Bank. The spirit of inquiry and the desire for

knowledge has been awakened ; but to direct these into the right course, and to render them productive of the desired results, information more full and correct than that now afforded is absolutely requisite. Upon the insufficiency of the present accounts, we have already made those remarks which the statements of Mr. Palmer's pamphlet could not fail to give rise to. It only remains for the public to consider whether any reasonable objection can possibly be urged against a full and distinct publication of the accounts of the Bank, so far as they concern their management of the currency. Imperfect, vague, and ambiguous accounts must, under any circumstances, be mischievous ; from such a source none but conclusions of a similar character can be deduced. If they are published at all, it certainly ought to be done in such a form as may enable the public clearly to understand the action which is really going on upon the circulation of the country. The advantages to arise from such full publication of the accounts, we conceive, are distinct and indisputable. The public would be enabled to regulate their course under the full light of truth, instead of proceeding with a doubtful and hesitating step through the delusive twilight which now surrounds them ; the unreasonable expectations of assistance and support from the Bank, which it is impossible for her, without violating more important duties, to satisfy, would rapidly vanish under a more correct conception on the part of the public of her true position ; and every tendency of the Bank itself to yield to importunate demands, and, under the present pressure of circumstances, to deviate from the

straight path of duty, would at once be checked by the consciousness that all her acts were under the public eye, and that a firm adherence to the true principles of currency would be rigidly exacted from her.

IX. In the course of these observations we have already alluded to the union in the Bank of England of the two functions of managing the currency and conducting Banking business ; to both these functions the term banking is, in common parlance, often applied ; the body which undertakes both classes of duties being called a Bank of Issue, and a Bank of Deposit and Discount. From this use of the common term Bank, it is not unnatural that those who take only a superficial view of questions of this nature, should receive the impression that there is some real similarity of character in these respective functions ; and that similar principles of conduct ought to regulate the discharge of them. This impression will of course derive further confirmation from the fact, that these duties are usually united in the same parties, and that not only in this, but in almost every country in which a paper-money exists, the issue of the paper circulation is in the same hands as are performing the ordinary banking business of the community. Can it be necessary, however, to point out to those who have really reflected upon these subjects, the essential difference which exists between these two functions ? a difference which not only renders them perfectly distinct from each other, but in many respects of so conflicting a nature, that it seems hardly possible that the administration of the two can be safely confided to the same hands.

A Bank of Issue is entrusted with the *creation* of the circulating medium.

A Bank of Deposit and Discount is concerned only with the *use, distribution, or application* of that circulating medium.

The sole duty of the former is to take efficient means for issuing its paper money upon good security, and regulating the amount of it by one fixed rule.

The principal object and business of the latter is to obtain the command of as large a proportion as possible of the existing circulating medium, and to distribute it in such manner as shall combine security for repayment with the highest rate of profit.

That these two functions are perfectly separate and distinct, and that there is no connexion between them which renders it necessary that they should be administered by the same parties, is clear. A very short explanation will be sufficient to show that they are in many respects *conflicting* duties.

The history of what we are in the habit of calling the "state of trade" is an instructive lesson. We find it subject to various conditions which are periodically returning; it revolves apparently in an established cycle. First we find it in a state of quiescence,—next improvement,—growing confidence,—prosperity,—excitement,—overtrading,—convulsions,—pressure,—stagnation,—distress,—ending again in quiescence.

Now during the progress of trade through this circular course, what is the necessary situation and the inevitable conduct of the Banker? The connection between him

and his customers is necessarily very close and intimate, they must sympathise with each other's views and feelings, and act to a considerable degree in concert. When confidence is increasing, the spirit of enterprise beginning to expand itself, when hope in all its forms is coming into active operation, when prices are rising, profits increasing, and every merchant or tradesman, with a view of benefiting by these circumstances, is desirous of extending his operations,—the Banker is looked to by his customers to act in concert with them, to facilitate their operations, and to distribute amongst them all the aid which the extent of his resources enables him to command. It would be difficult to show that it is not his duty, properly understood, to obey this call, and to assist the expanding energies of trade; at all events it would be practically impossible for him to act otherwise; he must conform to the tendency of circumstances about him; he must breathe the atmosphere of opinion which surrounds him, and suffer himself to be moved onward by the stream of events in which he is placed. For the practical truth of this view we may safely appeal to the experience of all who are conversant with business of this nature. A Banker cannot contract his accommodation at a period when the whole trading and mercantile world are acting under one common impetus of expansion. If under these circumstances the Banker, in addition to what may be properly called his ordinary and legitimate resources, is also entrusted with the power of issuing paper-money *ad libitum*; is it not inevitable that he should abuse that power? Can we expect that under such circumstances, whilst all his other

resources are strained to the utmost for the accommodation of his customers, he will still keep a firm and unyielding restraint over the amount of his issues? Will he, under such temptations, in no respect confound or compromise his respective duties as a Banker of Issue and a Banker of Deposit and Discount? Or must we not rather conclude, whether we look to the principles of human conduct, or draw our conclusions from the lessons of experience, that he will certainly blend together his Deposits and Circulation on the one side, his Gold and his Securities on the other, and thus produce an account which shall throw a plausible appearance over the abusive use which he is making of his power as an Issuing Banker? Look to the published accounts of the Bank and to their avowed rule of conduct. "*Habes confitentem reum.*" The effect, of course, of such an application by the Banker of his power to issue will be to give a further stimulus to the existing tendencies of the trading world, and ultimately to aggravate the convulsion to which they must lead.

Such we conceive to be the inevitable consequence of combining the issue of paper money with ordinary banking functions; and probably much of the intensity which characterises the commercial convulsions of this country may be justly attributed to this cause. Were the management of our paper issues effectually separated from all other business, and intrusted to a body having no other function to perform, their variations would be wholly disconnected from those sinister influences to which we have alluded; under such management the strict rule of

principle would not be allowed to bend to the expectations of a sanguine community, and thus one important cause of mischief would be altogether removed; whilst the crisis which must follow would probably be limited in its extent and intensity by an earlier and more steady application of the restrictive power. The tendency, wherever this union of issue and banking takes place, to produce mutual interference and confusion, is abundantly evident throughout Mr. Palmer's pamphlet. The accounts are not intelligible until the separation has been effected, and the reasonings appear unsatisfactory because this distinction is not steadily kept in view. A reduction of deposits is deemed a sufficient set-off against a reduced amount of bullion; and the duty of extending aid to the trading world and supporting mercantile credit is deemed a sufficient justification of increased issues in the face of a large diminution of treasure.

Let us not, however, be unjust to the Bank; she is in the situation of the Banker which we have described. She is a public body, performing banking functions, and in that character she must partake of the feelings, attend to the wants, and obey the expectations and demands of the community in which she exists. The calls which have lately been made upon her to support mercantile credit have been urgent and imperative; in her banking capacity she has been under the necessity of meeting those calls to the utmost extent of her means; and it would be well for the public interests that she should do so, *if among those means there did not unfortunately exist a power over the paper issues of the country.* A diminishing

amount of treasure requires a diminished amount of circulation; the struggling and convulsive calls of commerce equally demand augmented accommodation; how is she to meet these conflicting claims, how is she to perform these opposite and inconsistent duties? With the view of discharging her first duty, she compels the Government to raise the interest on exchequer bills, and thus realises her securities; but here Commerce interposes and carries away under the form of discount what was intended to go to the reduction of circulation; and thus the last condition of the Old Lady becomes worse than her first. Such is the inevitable consequence of entrusting to the same body duties which are different in their nature, which are to be regulated by different rules, and which give rise to conflicting motives.

X. In conclusion,—as a means of obviating in some degree the recurrence of a state of things similar to that which we are now discussing, Mr. Palmer suggests the necessity of some legislative interference to restrict the operations of the Joint-Stock Banks, and to check the facility of dealing in foreign securities in this country.

The transactions on the Foreign Stock-Exchange are objected to, as tending to disturb the state of the exchanges between this and other countries, and thus to embarrass the Bank of England in the management of the circulation, and the propriety of some legislative interference to check this evil is suggested. We are unable to perceive either the reasonableness of the complaint or of the remedial measure called for. The propriety of

these transactions in themselves, or their influence upon the morals or other interests of the community, may be a very proper subject of inquiry for the Moralist or the Statesman; but such considerations are wholly impertinent to the present discussion. We have to consider these transactions only in so far as they tend to interfere with the power of duly regulating the paper-currency of the country. Here we must again advert, even at the hazard of apparently needless repetition, to that great but simple principle, the want of an adequate attention to which seems to us to be the real source of many imperfect views and erroneous conclusions. The sole duty to be performed in regulating a paper-currency is to make its amount vary, as the amount of a currency exclusively metallic would vary under the same circumstances. By what means, or in what respect, do the transactions on the Foreign Stock-Exchange interfere with the performance of this duty? Would such transactions take place under a metallic currency? If not, then the paper-currency, which admits of their existence, must be improperly regulated. But if these are transactions which would take place under a metallic currency, then the effects which they would produce upon such metallic currency, they ought to be permitted to produce equally upon a paper currency. The utmost that can be expected from a paper currency is that it shall be the medium of adjusting the various transactions of a country without greater inconvenience to the community than would arise under a metallic circulation. To complain that a paper circulation is unable to sustain itself under circumstances which

would equally occur under a metallic circulation, is to acknowledge that the paper circulation is inefficient for its purpose, and therefore that it is under imperfect or erroneous management. On the other hand, to attempt to limit the fluctuations of the paper money to narrower bounds than those within which a metallic currency would have oscillated, is an empirical procedure, not founded upon sound principles, and which could lead to none but the most dangerous results.

In the views of Mr. Palmer respecting the influence of Foreign Stock transactions upon the management of the currency, we are mistaken if we do not discover a mixture of both these feelings. He is apprehensive that under its present management the paper currency of this country cannot sustain the violent disturbance which arises out of Foreign Stock transactions ; and he is also under a feeling, vague and undefined perhaps, of desire to protect the paper circulation of the Bank from oscillations, which there is no reason to suppose a metallic circulation would escape.

XI. With respect to the other suggestion it may be observed, that undoubtedly an adherence to sound principle would lead to the conclusion, that the issues of paper-money should be confined to one body, entrusted with full power and control over the issues, and made exclusively responsible for the due regulation of their amount. But the practice in this country has deviated so widely from this rule, and has become by long usage so deeply associated with the habits and prejudices of the community, that we fear we must not now attempt altogether to

eradicate it. However sound the principle of entrusting the exclusive power over the paper-circulation of the country to one body, the change which the adoption of it would require in our established usages and course of business would necessarily be attended with many very serious inconveniences, and it seems hopeless to expect that the country can be induced to make the attempt. The peculiar system which has hitherto existed in this country, that of one leading and central issuer surrounded by a multitude of smaller subordinate issuers, must, we presume, be continued; and all that can now be done is to offer suggestions for the purpose of diminishing the inconveniences which must attend so imperfect a system, and rendering it as effectual for good as possible. With this view it seems important to direct the attention of the public to the following points.

1. The propriety of securing, strengthening, and if possible, extending the monopoly, as regards currency, of the central issuer, with the view of rendering the indirect control which she can exercise over subordinate issuers more powerful and effectual.

2. The propriety of making some gradual approach towards the separation of banking functions from the management of currency, with the view of rendering the body which undertakes the latter duty free from all conflicting interests and motives, and at the same time making her responsibility distinct and complete, and the nature of her proceedings simple and easily understood.

3. The propriety, in the mean time, of a distinct separation in the accounts of the Bank of the manage-

ment of currency from every other branch of her business, of subjecting the superintendence of this Department to a separate Committee of Currency, and of associating with this Committee a representative of the Government, whose presence should always be requisite to constitute this Committee efficient for business.

The effect of such a regulation would be to check that tendency, which will inevitably exist in every body which combines the functions of banking with the issue of paper-money, to consider the amount of her issues as liable to vary in accordance with her own wants, and to be rendered subservient to her own convenience; thus neglecting, or at least partially suspending, that one great principle by an exclusive reference to which all paper issues ought to be regulated. The presence of a Member of the Government in all the deliberations of this Committee would prevent the Bank in any tendency to abuse her power over the currency for the promotion of her banking purposes, and the Bank would exercise a similar restraint over the Government. Add to this a full and intelligible publication of the proceedings of this Committee, and the public will thus be enabled to exercise a sufficient control over this body in any case in which it may be conceived that the two parties united can have a common interest in neglecting their duty to the public.

These suggestions are thrown out for the purpose of exciting reflection and discussion, and not under the presumptuous impression that they are in themselves complete. Most happy will the author of them be to find that they have the effect of rousing the attention of more

powerful minds to this important but difficult subject. Much national loss, as well as much individual but extensive misery, may be prevented by placing the monetary system of this country upon a more sound basis than that upon which it at present rests. The events which have occurred in connection with the late pressure upon the monied and mercantile interests are full of instructive illustrations of the effects, both beneficial and otherwise, of our present system, and the evil consequences of this pressure will be as nothing compared with its benefits, if amongst these we shall be enabled to reckon an increased degree of intelligence upon subjects connected with currency, and a nearer approximation to sound principles in the management of our paper issues. In the humble but earnest desire of contributing, however feebly, towards this end, these remarks have been penned, and the writer of them, having no object in view but the establishment of truth, as sincerely hopes that their errors may be fully exposed, as he trusts their merits, if they have any, may be fairly appreciated.

THE END.

R E M A R K S
ON THE
MANAGEMENT OF THE CIRCULATION;
AND ON THE
CONDITION AND CONDUCT
OF THE
BANK OF ENGLAND
AND OF
THE COUNTRY ISSUERS,
DURING THE YEAR 1839.

L O N D O N :

1840.

Where there is much desire to learn, there of necessity will be much arguing, much writing, and many opinions: for opinion in good men is but knowledge in the making.

MILTON.

I confidently hope that no fallacious reasoning will be listened to; that we shall at last open our eyes to the dangers that beset us—that we shall examine coolly and decide manfully.

RICARDO.

January 1st, 1840.

REMARKS,

ETC.

CHAPTER I.

On the Management of the Circulation previous to 1839.

It has been observed that the history of England is emphatically the history of progress. It is the history of a constant movement of the public mind, producing a constant change in the institutions of a great society. The subject of Currency does not constitute an exception to this remark. Upon all questions having reference to the management of the circulation, and the principles upon which it should be regulated, the public mind has long been, and still continues, in a state of transition; whilst the history of our legislation upon this, as much as upon most other branches of public policy, is emphatically a history of progress.

The abandonment, however, of ancient prejudices for more enlightened views has hitherto been far from complete. The true principles of currency are by no means universally recognised in the present day, and even those who in theory embrace, and indeed strenuously maintain,

what we conceive to be the true faith on this subject, exhibit a striking want of confidence and firmness when called upon to carry their principles into practice. The errors and inconsistencies which pervade the discussion of this subject in almost all our public journals, and from which our parliamentary debates are not wholly free, afford sufficient proof of the former part of our remark : whilst the anomalous state in which the paper issues of this country are still suffered to remain, and the faltering and hesitation exhibited by the Bank of England under the action of a heavy drain upon her bullion, are striking examples of that inconsistency in measures, which arises from the want of sufficient confidence in the truth of the principles on which they depend. Such is the vacillating and unstable condition of the human mind during the transition from old errors to new truths. The force of habit and the influence of former convictions are not easily overpowered ; and the hold which new doctrines obtain upon the public mind remains precarious and incomplete, until the conclusive testimony of experience can be brought to their support.

A short reference to the progress of public opinion upon questions of currency, and to its present state, will afford a further illustration of these remarks.

During the period of the suspension of cash payments, the public was in a state of very imperfect information upon the subject of currency. The doctrines of the Bullionists, it is true, had been propounded ; but they had not then succeeded in making any effectual impression upon the community at large. Silent contempt in

some quarters, and jealousy and suspicion amounting almost to animosity in others, was the reception which they generally met with; until the discussions of 1819 preparatory to the resumption of cash payments, and an examination of the phenomena presented during the period of suspension, produced a great change in the tone of public opinion on this subject.

Previously to that time, the self-styled practical men rather than the abstract reasoners were the popular oracles of the day; and the prevalent impressions were derived almost entirely from their views and doctrines. The important consequences dependent upon variations in the amount of the circulating medium, and the mode in which these influence the state of prices, the fluctuations in the exchanges, and the drain upon the Bank for bullion, were very imperfectly apprehended. Consequently the true character of that most important measure, the suspension of specie payments; the nature of the new position in which it placed the Bank, and of the new duties on the part of the Directors of the Bank, which arose out of it, could not be properly understood. The general impression entertained with respect to the duty which the Bank had to perform in the regulation of the currency, was of a very vague and undefined character; and it was met, not unnaturally, on the part of the Bank, by a course of procedure equally devoid of reference to any distinct or intelligible principle. The necessity of paying its notes in specie on demand being suspended, by what rule or upon what principle was the Bank to be guided in regulating the amount of its issues? This

was the question necessarily forced at that time upon the Bank Directors for their decision, and upon which the public also were virtually called upon to exercise their judgment.

The view taken on this point by the Bank, and acquiesced in, apparently, by the public, can be best stated in the words of those who were the leading Directors of the Bank at that time. When the Parliamentary Committee was appointed in 1819 to consider the expediency of resuming cash payments, they called before them Mr. Harman, the late Governor of the Bank of England, and Mr. Dorrien, the then Governor. The views of these gentlemen may be fairly taken as those by which the Bank had been guided during the suspension period in the management of the circulation, and especially in the regulation of its amount.

Mr. Harman is asked,—

“What is the indication of there being circulation enough in the country, neither too little nor too much, and what the regulator that determines that sufficiency?” “If it is meant to allude to discounts, I should have only the old answer to give; undoubtedly good paper being sent into the Bank for discount, of which we must judge the best we can, that is the criterion; I take for granted that established houses of good character would not come to the Bank to pay five per cent. for money, if they did not want it.”

“What regulates, in your opinion, the amount of circulating medium which is necessary for the purposes of the country; is it the amount of revenue and expenditure and the general amount of foreign trade in the country, or on what other circumstance does the amount of the circulating medium depend?” “I should think decidedly what has been suggested the amount required for the

"revenue, and the general expenditure, and also what is wanted for inland and foreign trade."

"Do you think that the increase of the issues of paper would not increase prices?" "I think an *undue* increase of the issues of paper decidedly would increase prices."

"What do you mean by undue in that sentence?" "The meaning of the word 'undue' in that sentence is an over-issue; if more paper is issued than the honest real wants of the public require, that certainly would have an unfavourable effect upon prices."

"Do you mean by that, more paper issued than private individuals may employ with profit to themselves?" "More paper issued than private individuals may employ with just profit to themselves; if so large a sum of paper is issued as to induce men to speculate improperly, that I should say was an undue issue."

"State what you consider to be the criterion of a superabundant issue?" "The criterion of a superabundant issue is when money will not produce a sufficient interest. I think, when in fact there is no demand for money, it will very soon discover itself in the money-market, whether there is a superabundance or not."

"In what manner?" "It will be, if I may use the phrase, hawked about at a lower rate of interest than is usual."

"Do you think that the foreign exchanges are affected by any considerable increase or diminution in the amount of the issues of the Bank of England?" "I cannot say that I have ever thought that they are."

"With a view to what immediate effect would the Bank reduce their issues?" "To the consideration of their own security, and to make themselves as independent as possible, in order that if there should be a run upon them they should have the means of fulfilling their engagements. Putting, as the Committee invite me to do, the consideration of the public out of view, it would then be for the safety of the Bank exclusively that I should act, and therefore reduce the issues at all events, that we might fulfil our own engagements."

"Would it be with a view to facilitate the purchase of gold by the reduction of its price in the market?" "That would not be my first object; an extravagant lowering of the amount of paper

"would very likely have the effect of lowering the price of gold, but inasmuch as we withdrew from circulation our paper, the means we already possess would be more equivalent."

Mr. Dorrien is asked,—

"Is the Committee to understand that the Bank of England regulate their discounts solely by a view to the nature of the transaction and the state of the parties, and not with any view to the state of foreign exchanges?" "If a house which is in the constant habit of dealing in exchanges were to send in a large sum for discount, at a time that the exchanges were unfavourable to the country, it certainly would become a part of the consideration."

"Is that because such a state of exchange might affect the credit of the house?" "No; with reference to the good of the country at large."

"Then the discounts of the Bank of England are influenced by a view to foreign exchanges, in a case where the applicants for discount are foreign merchants?" "Where they are dealers in exchanges."

"Are the discounts of the Bank of England in all other cases regulated solely by a regard to the transaction and the character of the parties?" "The various circumstances that bear upon the question, the solidity of the party, the amount of their account, and the nature of their business are taken into consideration."

"In any other case than that you have stated, would regard be had to the state of the exchanges?" "I do not think that that is made a consideration in a general way."

* * * * *

"Do you conceive the effect of the repayment (by Government of a portion of the Bank advances) would be the reduction of the issues of the Bank?" "The Bank is always ready to lend on commercial paper that is legitimate in its origin, and is not carried to too great an extent by the parties who apply for discount. The issues of the Bank would be regulated according to the absolute wants of the country, but that must be learnt by experience."

The full import of these replies can only be understood by reading them in connection with the whole of the examination from which they are extracted ; they are of themselves, however, sufficient to show that the management of the circulation during the period of suspension was not regulated by reference to any definite and established principle. Neither upon the subject of the measure by which the excess or deficiency of the amount of the circulation was to be determined ; nor of the means by which the circulation when in excess was to be restricted ; nor of the mode by which the amount of the circulation affects the state of the exchanges ; nor of the principle upon which a reduction of its issues was calculated to secure to the Bank its competency to discharge its notes in gold ; does it appear that any clear and fixed views were entertained by those who at that time were entrusted with the management of the currency. A supposed obligation to meet the real wants of commerce, and to discount all commercial bills arising out of legitimate transactions, appears to have been considered as the principle upon which the amount of the circulation was to be regulated ; whilst the single circumstance which, under such a system, could keep their issues within any reasonable bounds, viz., the accidental fact that the market rate of interest, for bills of the description which were alone discountable at the Bank, did not materially or for any length of time exceed the Bank rate of discount, was wholly unobserved, and therefore unappreciated by them. (See Appendix A.)

A connection was admitted to exist between the state

of the exchanges and the amount of the circulation ; but no definite idea was formed of the nature of this connection, nor was it deemed that any practical rule could be deduced from it, for the guidance of the Bank in regulating the amount of its issues.

The rate of interest seems to have been looked upon as a much better barometer for measuring the fluctuations of the circulation ; whilst a reduction of its issues was held to be a measure of protection to the Bank, not so much on account of any influence it might exercise upon the state of the exchanges, and its consequent tendency to put an end to the inducement for demanding gold, as on account of its simple effect in reducing the absolute amount of notes which could be presented for gold. Indeed, the doctrine that the state of the exchanges is influenced by the amount of the circulation, was formally denied by a solemn resolution of the Court of Directors, passed 25th March, 1819, and laid before Parliament. " That this Court cannot refrain from " adverting to an opinion, strongly insisted on by some, " that the Bank has only to reduce its issues to obtain " a favourable turn in the exchanges, and a consequent " influx of the precious metals; the Court conceives it " to be its duty to declare that it is unable to discover " any solid foundation for such a sentiment."

It could not be expected that the measures of a body under the influence of views so vague and erroneous, should be characterized by wisdom or efficiency ; and an example of the absurd and even dangerous consequences to which they were calculated to lead, was afforded in the

measure which the Bank adopted as preparatory to a more general and complete return to cash payments. Having accumulated a considerable quantity of specie, the Bank thought that the most natural and effectual mode of preparing for a general resumption of cash payments was, to spread the accumulated store of specie throughout the country by the intermediate adoption of a partial resumption. Accordingly she undertook to pay all her notes dated before a given day, and also all small fractions of dividends, in gold. But as the Bank did not understand the principle upon which the exchanges had taken a favourable turn and brought the gold into her coffers, so she omitted, when distributing that gold to the public, to take any measure for maintaining the favourable state of the exchanges, and preventing the gold from being again drained out of the country. "It appears from the evidence of Mr. Harman, that during the whole of the year 1817, the Bank did not think it necessary to make any reduction of its issues, either in consequence of the effect of foreign loans upon the exchanges, or of its payments in gold made in conformity to the notices above referred to."—*Lords' Report*, 1819.

The man who, because he had accumulated an unusual quantity of water, thought that he could therefore fill with it a tub which had lost its bottom, was not more absurd than the Bank, in thinking that the accumulation of specie put it in a position to make some effectual progress towards a return to cash payments, without any previous or accompanying measures for putting a bottom to its tub

by regulating the exchanges. These soon took an unfavourable turn; the Bank parted with nearly seven million of its treasure without making good a single step towards the object in view. In this position the Bank of England was found by the Parliamentary Committee of 1819, which lost no time in making a special report, calling for legislative interference to stop an expenditure of treasure, which, being founded upon no principle, could lead to no beneficial result.

Such was, at that period, the wisdom of men who boasted of their practical knowledge, and rejected the theories of those who are sometimes sneeringly denominated philosophers and abstract reasoners; and it is profitable to dwell upon the example, because the same feeling is still in existence in the present day. The advanced intelligence of the age, and the unquestionable triumphs which theorists have obtained over their adversaries by the practical realization of their views, have placed them in a more advantageous position, and secured greater weight to their authority; still, however, the disposition is too prevalent to compromise or to suspend principles altogether, when the immediate consequence to which they lead, involves temporary inconvenience or partial suffering; and if at such a moment the wavering are reminded of the principles which they have acknowledged, and are called upon to maintain their consistency, the response is not unmixed with a half-suppressed but angry murmur against the narrow-minded or the hard-hearted theorist. There are subjects, undoubtedly, upon which

“ the head

“ Might learn a useful lesson from the heart,”

but the principles of economical science, and the practical application of them, is not the subject upon which those instructions can be most safely admitted.

II. Here terminates the dark age of currency ; and we now enter upon a period characterized by more enlightened views. The Reports of the Select Committees of both Houses of Parliament upon the expediency of resuming cash-payments in 1819, were founded upon the adoption of the doctrines of the Bullionists ; and from that time it may be said that the principles of currency as expounded by them have supplanted the so-called practical views which had previously prevailed, and have been recognised by the public sentiment as the code of laws by which the monetary system of the country ought to be governed.

Those Reports recognised “ the restoration of the “ currency of the country to a state of regulation by its “ ancient metallic standard,” as an object of paramount importance to the interests of the community, and which ought to be accomplished at the earliest period which should be found safe and practicable.

For the effectual accomplishment of that object, the necessity was admitted of securing to the Bank of England a greater power of controlling the amount of its issues, because, by a strict regulation of them, the Bank would be enabled to influence the foreign exchanges, and, consequently, to secure herself against an unlimited

demand for gold. For the purpose of giving to the Bank that greater control over its issues, it was recommended that a large portion of the debt due from the Government to the Bank should be repaid. A portion of that repayment it was intended should be applied by the Bank to the immediate reduction of its issues, which was necessary to render the resumption of cash-payments practicable and safe; whilst the other portion, being added to the capital of the Bank already employed in mercantile discounts, would thus be rendered more immediately available for the purpose of still further reduction of her issues, whenever peculiar circumstances or any unexpected emergency should render such a step necessary for the due regulation of the exchanges. All the witnesses, be it observed, and both the Committees of Parliament, adopted and acted upon the doctrine that issues by the Bank upon the discount of mercantile bills are more immediately under the power and control of the Bank, and more capable of being contracted at her discretion, than issues in any other form, and more especially than issues in the form of advances made to Government.

“ To a demand, resulting from this source, (excess of
“ the market-price of gold above the Mint-price,) every
“ bank issuing paper convertible into either of the pre-
“ cious metals, must at all times be liable; and unless the
“ market-price of gold can be kept within certain limits
“ of deviation from the Mint-price, either by the reduction
“ of the issues of paper, or by the effect of a favourable
“ balance of payments upon the exchanges, the whole
“ system of banking must necessarily fall to the ground.”

“ As it would be impossible for any person to draw
 “ bullion from the Bank except in exchange for Bank-
 “ notes, no demand could be made upon the Bank to any
 “ great extent for gold without occasioning a scarcity in
 “ the currency, which would tend to raise the value of
 “ those notes, and to remove the temptation to present
 “ them in exchange for bullion.”—*Lords' Report*, 1819.

“ However the exchanges may have been effected in
 “ the course of the last and the preceding year, your
 “ Committee see no reason to apprehend that the causes
 “ above mentioned, or any similar causes, can continue to
 “ affect them in such a degree as to preclude the Bank of
 “ England, by a constant reference to the exchanges and
 “ the price of gold, and when necessary, by a cautious
 “ reduction of their paper-currency, from gradually ap-
 “ proximating its value to that of gold, and ultimately
 “ re-establishing and maintaining it at par.”

“ If the price of gold shall remain the same as it is at
 “ present, the demand from the Bank, which will have to
 “ deliver it at that price, will necessarily be very limited.
 “ If in the interval any causes shall affect it, and produce
 “ a rise in its price, the Bank must, in that case, contract
 “ its paper either positively, as compared with its present
 “ amount, or relatively, to any increased demand which
 “ there may be for it, and thus, by increasing its value
 “ as currency, proportionately diminish the inducement
 “ to demand gold.”

“ It will be seen by reference to a communication made
 “ by the Court of Directors of the Bank to the Com-
 “ mittee, as well as from the whole tenor of the evidence

“ of the Directors, who were examined personally before
“ them, that they consider the repayment of a large
“ proportion of those advantages essentially necessary,
“ preparatory to the resumption of cash-payments. As
“ the notes which are issued by the Bank upon the dis-
“ count of mercantile bills, revert to them at the expira-
“ tion of the period which these bills have to run, and
“ which never exceeds 65 days, it is clear that that portion
“ of their issues can be extended or limited at their dis-
“ cretion ; whilst over the notes which are issued in con-
“ sequence of advances to Government, they have not
“ practically the same control. To whatever extent these
“ advances may be reduced, the Bank will gain a cor-
“ responding control over the amount of their circulating
“ paper, and will be enabled to supply the diminution of
“ notes thus created by an increase of their issues, either
“ upon the discount of mercantile bills, or by the purchase
“ of bullion, or, if necessary, to make a reduction in the
“ total amount of notes outstanding equal to the whole
“ or any part of the re-payment.”—*Commons' Report*,
1819.

It is refreshing to dwell upon these passages from the Reports of the Committees, in contrast with the statements upon which we have previously commented. Instead of vague rules of procedure, directed to objects not clearly defined, and to work by processes wholly unexplained ; we are here presented with clear and definite principles respecting the management of the circulation ; whilst the reasons upon which those principles depend, the steps through which the anticipated results are to be attained,

and the precise extent and character of those results are all fully developed. Doctrines, thus clearly explained, and arrived at by the process of sound reasoning and logical deduction, may be safely embraced with a degree of confidence which no other considerations would warrant; and accordingly, it has been found that the principles laid down in these Reports have been verified by all subsequent experience. Legislative authority and sanction was thus for the first time given to sound principles of currency; and doctrines, which had previously been held only by a limited number of reflecting individuals, whilst by the majority of the nation they had been looked upon with feelings of jealous apprehension, were at length recommended to the favour of the public at large, and adopted as safe guides for practical action in affairs of the highest importance. From this period the progressive advancement of these principles has been steady and uninterrupted; the force of reason, and the increasing weight of experience, have co-operated in their support; so that in the present day, the number of those who withhold from them an abstract assent is limited, although too many are found who desert their standard in the hour of pressure, and either from an imperfect perception of the nature of those principles, or from want of sufficient confidence in their certain tendency to the ultimate accomplishment of right results, recommend or sanction measures utterly irreconcilable with them. It is not, however, the mere going over the theory of currency, and talking learnedly about it, which will secure to us the advantages of a well-regulated circulation. The

passive acknowledgment of the principles of the subject is of little moment, unless it leads to the practical habit of acting up to those principles, and of making all our measures, really and truly, conform to them. A sound form of doctrine is little better than a tinkling cymbal, unless it be followed by a course of action consistent with its precepts.

III. The next well-defined step in the progress of public intelligence upon the subject of currency, was at the period of the appointment of the Parliamentary Committee, preparatory to the renewal of the Bank Charter in 1832. The evidence given by the most intelligent of the Bank Directors on that occasion contrasts in the most extraordinary manner with the evidence given under similar circumstances only thirteen years before, and affords a very satisfactory proof of the rapid progress which sound principles had made in the public mind, and especially amongst the Directors of the Bank, during that period.

A very curious and striking account of the circumstances connected with this change of opinion on the part of the Bank, and the corresponding change in her system of managing the currency, is given in the evidence of Mr. Ward. "In the year 1819 when the Committee sat, "there were some resolutions forwarded to the Committee "from the Bank, stating some of the principles that "they had regarded; and it will be recollected, that they "distinctly denied the principle, that the Exchanges were "to be regarded in regulating the issues. Subsequently

“ to that period, opinions became changed, and, of course
 “ in the working of the machinery, they found the merits
 “ of the case such as they really were; and a growing
 “ disposition manifested itself to heed, in a greater degree
 “ than they hitherto had done, the principle of exchange
 “ and bullion; but in 1827 I moved that that resolution
 “ should be rescinded, and from that moment I have con-
 “ sidered it the practice of the Bank, and it was the
 “ practice in a great degree, even previously to that.”
 (p. 143, Q. 2074.) In a subsequent part of his evidence
 Mr. Ward remarks, “ It was first considered a theoretical
 “ notion, but subsequently it was found, little by little,
 “ that the practice did agree with the theory.” In fact,
 the evidence given by the then Governor of the Bank,
 Mr. Horsley Palmer, and supported by the concurrent
 testimony of his coadjutors, Mr. Ward and Mr. Norman,
 would constitute no bad summary of the true principles
 of currency; and it is well known that the soundness of
 views developed on the part of the Bank Directors on that
 occasion, did much towards conciliating that degree of
 public confidence, which led to the renewal of the Charter.
 No doubt, or difference of opinion, was exhibited
 respecting the principles upon which the issues of the
 Bank should be managed; the only difficulty seemed to
 be respecting the best and most efficient mode of carrying
 those principles into practical operation.

The convertibility of the notes of the Bank was to be
 secured, by regulating the amount of the issues with
 reference to the state of the Foreign Exchanges; and
 the increase or diminution of gold, in the hands of the

Bank, was to be taken as the only certain and safe test of the favourable or unfavourable state of the exchanges: consequently the amount of her paper issues was to vary with a direct reference to the fluctuations in the amount of bullion in the possession of the Bank.

Upon these points there was an universal agreement. But here, an important question arose. The amount of the paper issues of the Bank is to be regulated with reference to the fluctuations in the amount of specie; but by what process or arrangement is this regulation of the amount of the paper issues to be most conveniently and most efficiently accomplished? If circumstances require a reduction of the circulation, how is the precise amount of reduction to be ascertained and determined? What securities is the Bank to select for realization? Upon what classes is she to throw the first pressure of her action? Difficult questions these to which to give a satisfactory reply; and a most delicate discretion which is thus thrown upon the Bank. To meet this difficulty, a plan was suggested by the Governor and some of the Directors, in their examination before the Committee, which was characterized by a singularly happy combination of sound views of general principles, with sagacity and contrivance in the means proposed for carrying them into effect. It was proposed to take "the period of a full currency and consequently a par of Exchange," and to invest and retain in securities two-thirds of the available funds of the Bank, and to hold the remaining third in coin and bullion. This being done, the Bank was thenceforth to retain the aggregate amount of the securities

unaltered, and whatever demand might arise from the action of the public in presenting notes for payment was to fall exclusively upon the coin and bullion. "The Bank are very desirous not to exercise any power, but to leave the public to use the power which they possess, of returning Bank paper for bullion." (H. P. evidence, No. 78.) By this means, a rule of action was obtained which would be certain and irresistible in its operation; whose effects would in all cases be precisely proportionate to the circumstances which called it into action; and which, whilst it secured these results, would relieve the Bank from the necessity of exercising a discretion in each case, and thus protect her from unjust misconstruction of her measures, to which she might otherwise be exposed, and preserve the public from the effect of miscalculations and errors, into which the Bank might, if compelled to exercise a discretion, very possibly fall. All that principle required, appeared by this plan to be fully satisfied; whilst the difficulties, which usually attend the attempt to carry on abstract principle into practical operation, were most happily avoided. The simplicity of the plan at once recommended it to public approval. It presented what had hitherto been considered the abstruse and complicated principles of paper currency in a plain, intelligible, and simple form. All great advances in science are invariably marked by their tendency towards simplification; although arrived at by a laborious progress through complication and difficulty, their peculiar merit is to present, what was previously confused, in an orderly and simple form, and to render results, attained only by

a series of efforts of laborious and painful thought, so clear and intelligible, that every one wonders where the difficulty was, and in what the discovery consists. In this respect the plan we have now been considering is entitled to rank as a happy instance of scientific simplification.

These remarks, however, are made upon the assumption, that the plan in question was to be considered as applicable exclusively to the management of the currency. Unfortunately, it was conceived that the different branches of the business of the Bank were so closely blended and interwoven with each other, as to render it impossible to establish a practical distinction between those purposes to which the rule was properly applicable, and those with which it had no legitimate connection. Consequently, in obedience to a necessity, real or supposed, the authors of the rule acquiesced in the application of it indiscriminately to the general management of the whole concern, and in so doing they diminished its simplicity, and altogether destroyed its efficiency. The evidence of this will be sufficiently clear as we proceed.

In the available funds of the Bank, to be invested in the manner and in the proportions already stated, were included not only the funds arising from the issue of a paper circulation; but also the funds arising from the strictly banking operations of the concern; the Deposits were included as well as the Circulation; and thus a rule, simple and almost perfect for the management of a paper currency, was applied to the double purpose of regulating the operations of a Bank of Deposit, as well as

of a Bank of Issue. The principles upon which these two branches of business ought to be conducted are perfectly distinct, and never can be reduced to one and the same rule. Nothing more sound in principle, nothing more safe in practice, than to invest a certain portion of the proceeds of a national paper currency in fixed securities, and to retain the remaining portion in coin or bullion ; taking care that the proportion shall be so fixed, as to leave the bullion sufficient to meet all the usual, and indeed all the reasonably possible, fluctuations of amount. On the other hand, the only rule applicable to the management of banking deposits, is, that of increasing investment in securities as the deposits increase, and again realizing a portion of those securities, as the deposits are withdrawn. The two things, the management of a paper currency, and the management of banking deposits, cannot be blended together in one system, and treated as subject to the same laws and to be governed upon the same principle. The attempt to do so, is like that of the unskilful chemist, who attempts to unite together substances which have no affinity, and will not combine, and therefore obtains only a confused and useless mixture, where he looked for a perfect chemical compound.

The impression may possibly exist with some persons that the deposits of the Bank of England are different from the ordinary deposits of other concerns ; more fixed in their nature, less fluctuating in their amount ; and therefore not equally subject to the rules which apply to other deposits. This, however, is not the case ; the deposits of the Bank of England were in

March, 1838	....	....	....	£11,535,000.
January, 1839	....	....	....	10,315,000
October, 1839	....	....	....	6,734,000

an amount of fluctuation probably not equalled by the fluctuation in the deposits of any other concern within the same period of time.

Let us now look to the nature of the consequences which either have actually occurred, or which may possibly ensue, from the application of the rule in the form in which it has hitherto been adopted by the Bank.

First. For the simple and exclusive purpose of regulating the circulation of the country, it leaves us without any rule whatever; and accordingly we find, by the published returns, that no fixed relation exists between the amount of bullion and the amount of circulation.

Second. The circulation may decrease whilst the bullion is increasing, or it may increase whilst the bullion is decreasing. We have had practical examples of each kind within the last few years.

Third. The bullion, through the demands of the depositors, may leave the Bank coffers in large amounts, in fact it may be wholly drained out, without any contraction of the circulation, and therefore without any effect being produced upon prices or foreign exchanges, by means of which the continuance of the drain may be checked. This is a possibility: it cannot strictly be said to have occurred, though the condition of the Bank has lately approximated very closely to this state of things.

It is further to be observed that none of these results could occur under the application of the rule in question, strictly and exclusively, to the management of the circulation; it is only when banking transactions, as well as those of currency, are brought under its operation that these contingencies arise.

The force of these objections appears to have been felt and admitted by the parties from whom the first suggestion of the principle emanated. "The authorities of the Bank did not imagine that a reduction of deposits was equivalent to a reduction of circulation, or that consequently their principle was perfect: they knew its weak point, viz. that it allowed an adverse exchange to be met by a diminution of deposits, instead of by a diminution of the circulation; but they propounded it because it was the best, the easiest to be explained and acted upon, that they could venture to bring forward or hope to maintain."—*Norman on Currency*, p. 80.

We have now traced the progress of public intelligence upon the subject of currency, from the period when the first practical authorities repudiated the principle of regulation by reference to the exchanges, until we have seen a complete revolution of sentiment on this point; and a plan proposed by the Bank itself, for rendering the application of that principle simple and effectual.

It would be satisfactory could our statement here terminate; but the steps by which the human mind advances from the dark abysses of error to the pure and elevated light of truth are generally gradual and slow; nor has it been otherwise in the present instance. The value of the

principle which we have embraced has to a great extent been neutralized, in consequence of a confused perception of the limits, within which the application of it should be confined; and we must add that the application of the principle, even as proposed by the Bank, has not been adhered to in the hour of trial with that steadiness of purpose which alone can prove that it has been adopted under the influence of a thorough conviction, and enforced by the approving sanction of the public judgment.

CHAPTER II.

On the Management of the Circulation during the Year 1839.

I. During the year 1836 a combination of circumstances subjected the Bank to a heavy pressure, and a serious diminution of her bullion was the consequence. In the following year a change of circumstances produced the opposite result, and a large increase of her bullion ensued. Upon an examination of the published accounts of the Bank during these periods, it was contended by some parties that the Bank had departed altogether from her own rule, and still more so from that which ought to be the rule, for the management of the currency. In the former year they urged that whilst the bullion had rapidly diminished, the circulation had not undergone a corresponding decrease, and the securities had actually

increased. In the latter year, it was observed that whilst the bullion was rapidly increasing, the circulation had diminished and also the securities. The reply to these objections rested upon the ground that in these years the accounts of the Bank were affected by peculiar and unusual transactions, to which the rule ought not to be applied; that with respect to the year 1836, if these peculiar transactions were struck out, the accounts would then be found to be in conformity with the rule of the Bank; and that with respect to the year 1837, the deviation of the Bank from the prescribed rule on that occasion was necessary as a corrective of her previous deviation (admitted by some though denied by others) in the opposite direction the preceding year. It is not necessary now to make further reference to those discussions; the circumstances which gave rise to them have since been succeeded by another series of events, equally, if not more important; and on this, as on the previous occasions, the state of the circulation, and the conduct of the Bank in the regulation of it, become most important and interesting subjects of inquiry.

Fortunately, on this last occasion we are not liable to be embarrassed by those peculiarities which were stated to affect the preceding periods; there are no peculiar transactions, so far as the public are informed, calculated to make the accounts tell a delusive tale, as in 1836; neither can any rectification of previous misconduct be urged as necessitating a course directly opposed to that which principle would otherwise require, as in 1837. The accounts of the two last years, we presume, may be taken as giving

a true and correct view of the condition of the Bank, at a time and under circumstances when there has existed no peculiar cause to justify an apparent departure from those which she has acknowledged as the rules of her conduct. We are well aware, in making this remark, that the period in question has been one of heavy pressure and of severe trial to the Bank; an unfortunate succession of two bad harvests, a large importation of foreign securities from the United States, a peculiar condition of the money-market at Paris, have all acted simultaneously to cause a heavy drain upon this country. In this respect the similarity of the circumstances which were considered as augmenting the difficulties of the resumption of cash-payments in 1819, and of the recent circumstances which have put our power of maintaining those cash-payments to the severest test, is peculiarly striking. The language which describes the one, would convey an equally faithful account of the other.

“ This unfavourable state of the exchanges is attributed
“ by some persons who have been examined before the
“ Committees to the continued operation of foreign loans,
“ to the temptation held out by a high rate of interest to
“ the investment of British capital in foreign funds and
“ foreign speculations, and to the large purchases of corn
“ from abroad.”—*Lords' Report*, 1819.

“ Some of the witnesses ascribe the unfavourable change
“ in the exchanges to the effect of the loans which had
“ been made about that period by foreign powers, to the
“ remittance of British capital for the purpose of being
“ invested in foreign securities and foreign commercial

“enterprise, and to the effects of a very large importation
“of corn in the course of the last year.”—*Commons’
Report*, 1819.

The fact is, that the severe trials to which our monetary system must be occasionally subjected, will always arise from these or from very similar causes; and whatever be the rule for the management of the circulation, it must be one which will hold good under trials of this nature. Rules, indeed, are made for periods of difficulty; in ordinary circumstances things will usually manage themselves; and it is only when pressed by untoward circumstances, or drawn aside by strong temptation, that we require a reference to principle, or the authority of recognised rules, to confine us to our right course. We think, therefore, that it will not be deemed unreasonable to select the past year as the period during which to examine the course of the Bank, for the purpose of ascertaining how far the rule of the Bank for the management of the circulation is sufficient; and how far there exists on the part of the Bank and the public that conviction of the soundness of the rule which is necessary to secure a faithful adherence to it.

BANK OF ENGLAND.

Average of Three Months.

	Circulation.	Deposits.	Securities.	Bullion.
1838.				
11th January	17,900,000	10,992,000	22,606,000	8,895,000
8th February	18,206,000	11,266,000	22,569,000	9,543,000
8th March	18,600,000	11,535,000	22,792,000	10,015,000
5th April	18,987,000	11,262,000	22,838,000	10,126,000
4th May	19,084,000	11,006,000	22,768,000	10,002,000
1st June	19,018,000	10,786,000	22,648,000	9,806,000
29th June	19,047,000	10,426,000	22,354,000	9,722,000
26th July	19,286,000	10,424,000	22,601,000	9,749,000
24th August	19,481,000	10,298,000	22,747,000	9,746,000
21st September	19,665,000	10,040,000	22,846,000	9,615,000
19th October	19,359,000	9,327,000	22,015,000	9,437,000
15th November	18,900,000	8,949,000	21,171,000	9,339,000
13th December	18,469,000	9,033,000	20,707,000	9,362,000
1839.				
10th January	18,201,000	10,315,000	21,680,000	9,336,000
7th February	18,252,000	10,269,000	22,157,000	8,919,000
7th March	18,298,000	9,950,000	22,767,000	8,106,000
5th April	18,371,000	8,998,000	22,987,000	7,073,000
2nd May	18,350,000	8,107,000	23,112,000	6,023,000
30th May	18,214,000	7,814,000	23,543,000	5,119,000
1st July	18,101,000	7,567,000	23,934,000	4,344,000
25th July	18,049,000	7,955,000	24,905,000	3,785,000
22nd August	17,969,000	8,029,000	25,588,000	3,265,000
19th September	17,960,000	7,781,000	25,936,000	2,816,000
18th October	17,612,000	6,734,000	24,939,000	2,522,000
12th November	17,235,000	6,132,000	23,873,000	2,545,000
12th December	16,732,000	5,952,000	22,764,000	2,887,000

II. The preceding table presents to us in one view the fluctuations which have occurred in the circulation, deposits, securities, and bullion of the Bank during the years 1838 and 1839 as they are at present rendered to the public. This table, however, would leave a very imperfect, if not erroneous, impression upon those who examine it, unless they also take into their consideration a fact of a very peculiar, and at the same time of a very

important nature, connected with the proceedings of the Bank during the latter half of the past year. It is well known that when the Bank became alarmed at the low amount to which the bullion had been reduced, without any improvement in the appearance of the foreign exchanges, she obtained a foreign credit to the amount of two millions and a half; and it is generally understood that she has used it to nearly the full extent. It is not necessary here to discuss the propriety or otherwise of this measure; the effect of it upon the account now before us is the only point to which we wish to draw attention. By means of this credit the Bank has been enabled to sell bills upon foreign places to the amount of it, and by the notes received in payment for those bills she has effected a contraction of her circulation to that extent which would not otherwise have taken place. Or we may view the effect of the credit in another light; it has placed at the command of the Bank that amount of specie in the principal exchange towns of the Continent, and has thus enabled the Bank to prevent a drain of specie upon her own coffers, which would otherwise have taken place for the purpose of remittance to those quarters. In whichever way we look at the effects of this measure, they are of a forced and artificial nature; and they enable the Bank, in her published accounts, to present an appearance more favourable than the real state of things would have been under the influence of usual and ordinary circumstances only. In fact, we are justified in saying, that without the protection of this peculiar operation, the bullion of the Bank would have been completely exhausted.

Now let us look at the tale which these accounts tell. What evidence do they afford that the rule of the Bank for the management of the circulation is sufficient to secure the convertibility of the notes?

The drain upon the bullion has occurred principally during the year 1839.

In January it was	....	....	....	....	£9,336,000
In October	....	....	....	....	2,525,000
Decrease, notwithstanding the foreign credit					£6,811,000

The corresponding diminution in the liabilities of the Bank has fallen almost entirely upon the deposits; the decrease of the circulation within the same period amounting only to £600,000. Thus we have a decrease of bullion of very large amount, and to so low a point that the position of the Bank is unquestionably rendered insecure, and without the aid of the foreign credit would probably have been desperate; whilst the decrease of circulation, by which alone this course of things could be checked, and the convertibility of the notes ensured, amounted only in October to the trifling sum of £600,000; and, according to the rule, might have been nothing at all, if the depositors had thought proper further to increase their demands to that extent. Is not this a clear reduction of the rule to a practical absurdity; and a proof, that so long as it is applied to the joint liabilities, and not to the circulation exclusively, it affords no security whatever?

As applicable to this point, we cannot forbear from quoting an observation which occurs in the evidence of

Mr. Ward, and which puts the true principle of a paper-currency with peculiar clearness and force. "Individually, as a Director of the Bank, I do not presume to alter the King's currency, but I endeavour always to bring the paper as nearly as possible to what the currency would be if no Bank existed, and the currency were all gold" (p. 144, No. 2080). Who, then, we may ask, has "presumed to alter the King's currency" during the last year, when we find by the accounts before us that "had it been all gold" the decrease would have been £6,800,000: whilst, being a paper circulation and "a Bank existing," the decrease has been only £600,000?

III. The striking improvement which has taken place in the condition of the Bank during the months of November and December does not in any respect militate against the force of these remarks. The heavy drain upon the bullion began in the early part of the year; the great reduction in the circulation and the securities takes place at the end of the year, and at a moment when, after a long period of decreasing treasure, the first indications of a return of bullion begin to manifest themselves. In the mean time several events, which it is most desirable to obviate, have occurred. First, the necessity of resorting to a foreign credit. Second, a feeling of distrust respecting the stability of our monetary system has been created throughout the Continent, which has led to a forced sale upon the different European exchanges of all bills upon England, and a suspension in the execution of

orders for the purchase of British manufactures for export. Third, the bullion has been reduced to an amount which has left the Bank insufficiently provided against the effects of any demand which might arise from internal and domestic causes. A demand of this nature not being subject to regulation upon any principle, can only be met by the payment of gold on the part of the Bank until it exhausts itself. If the contraction of circulation had commenced with the decrease of bullion, in the beginning of the year, when the circulation was £18,201,000 and the bullion £9,336,000, and had steadily accompanied it throughout, these evils would in all probability have been avoided. At all events this would have been the legitimate means for the prevention of them; and failing the adoption of this course, a heavy share of the consequent responsibility must attach to the Bank.

Against the actual exhaustion of its treasure by a drain through the foreign exchanges, the Bank under almost any circumstances has the power of protecting herself; but to do this, she must produce upon the money-market a pressure ruinous from its suddenness and severity; she must save herself by the destruction of all around her. The duty, however, really imposed upon the Bank is of a very different nature; she is bound not only to protect her treasure from actual exhaustion by foreign drain, but also to preserve it at such an amount as shall leave her at all times prepared to bear the probable, or reasonably possible, demands of internal alarm; she must guard not only against the actual calamity of suspension, but against even the reasonable apprehension

of it; and at the same time the measures necessary for this purpose must be rendered as little oppressive to the trade of the country as is consistent with the accomplishment of the requisite results. Hence the importance of making the commencement of the action upon the circulation simultaneous with that upon the bullion; it is thus rendered gradual in its operation, and therefore comparatively light in its effects; whilst procrastination upon this subject affords an opportunity for, and indeed promotes, the occurrence of many circumstances calculated to embarrass and obstruct the accomplishment of the end in view. Upon this point, we have the experience of the past year to instruct us. Had an internal drain upon the Bank sprung up during the months of August, September, or October, when she stood in a difficult position, and her store of specie was reduced to a very low amount, it is impossible to say what consequences might have ensued. The convertibility of the notes might possibly have been maintained, but it would have been by the force of measures pressing with ruinous severity upon all parties dependent upon, or in any way connected with, the money-market. It is to protect themselves against this contingency, to prevent the necessity of sudden and severe measures on the part of the Bank, that all parties are interested in enforcing as far as possible an early contraction of circulation corresponding with the first decrease of bullion. It is always wise to submit to the inconvenience of early preventatives rather than incur the risk of a more distant but greater evil. The reduction of circulation and securities which the accounts of

the Bank now exhibit as taking place after the drain of bullion has ceased, and when the stream is apparently beginning to flow in the opposite direction, are correctives, which have lost more than half their value in consequence of not having been sooner resorted to; and the adoption of them at this late period belongs to that branch of wisdom which our homely proverb describes as "locking the door after the steed has been stolen."

IV. But, secondly, what evidence is there that the Bank has faithfully adhered to her rule?

The decrease of the joint liabilities is very far from equal in amount to the decrease of the bullion; and if the state of her accounts be tested by that which she has herself put forward as the fundamental law of her proceedings, viz. the steady maintenance of her securities at a fixed amount; it must be condemned as exhibiting a remarkable departure from the prescribed course.

The amount of the securities was to be kept fixed, under ordinary circumstances; but there might possibly be extraordinary circumstances in which a forcible and more rapid *contraction* of liabilities (than that which the simple action of the public upon the Bank would produce) would be requisite. Such was the rule; what has been the practice?

The securities in Jan. 1839	....	....	£21,680,000
" " Oct. "	....	....	24,939,000
<i>Increase of securities</i>			<u>£3,259,000</u>

The security given against the foreign credit has no

doubt been written off from this account, and therefore the amount of securities under a natural state of things, without reference to the foreign credit, would stand higher than they are represented in this account by £2,500,000.

This *increase*, it must be further observed, has taken place during a period, when, if such a contingency can ever occur, those "extraordinary circumstances" were in course of occurrence which would render necessary a forcible and more rapid *contraction* of liabilities.

Nor is this departure from fixedness in the amount of the securities a single or accidental occurrence; it has rather the appearance of a regularly recurring phenomenon, resulting from some cause, the constancy of whose action indicates an intimate connection with the system upon which our paper issues are managed. Before the period to which we have just referred, it had been observed by Mr. Samson Ricardo, in his pamphlet on a National Bank (p. 6), "that the decrease of the bullion, instead of acting upon the circulation only, in accordance with the correct principle, or upon the circulation and deposits together, agreeably to the rule of the Bank, has since 1833 uniformly been accompanied by a corresponding increase in the securities; in like manner has the increase of bullion, which has been progressive for some months past, been accompanied by a considerable decrease of the securities."

The rule, it is clear, is altogether neglected; or would it not be more correct to say, is found to be impossible of execution by a body which unites the business of banking

with that of issue? The securities fluctuate largely, and their fluctuations, instead of corresponding with, are usually, if not invariably, in the opposite direction to those of the bullion.

V. It becomes important to ascertain, if possible, to what cause this is to be attributed. The Directors who first explained this rule in so perspicuous a manner in their evidence before the Committee in 1832, Mr. Palmer and Mr. Norman, are now by their long standing and great experience necessarily become very influential in the management of the affairs of the Bank; it cannot be supposed that they have voluntarily repudiated their own law. The whole body of Directors, there is every reason to believe, approved and adopted the rule; we cannot suppose that they, having embarked on their voyage with a compass specially constructed by themselves for their safe guidance, have subsequently determined to steer a course in opposition to its direction. The only rational conclusion to which we can come, is, that the Directors are overpowered by a pressure from without which they cannot resist, and are driven from their intended course by the force of circumstances which they find themselves unable to control. What then is the nature of this pressure, and whence does it arise? To solve this question satisfactorily, it is necessary to have more detailed information. A classified statement of the securities would show in what branch of the securities the increase has taken place, and thus probably afford some valuable indications as to the quarter in which the true cause of the

increase is to be found. In the absence of this information we can only reason upon general considerations.

In addition to the difficult task of regulating the circulation of the country, there are various other duties which custom, sanctioned by public opinion, has imposed upon the Bank. Amongst these the most prominent are, to supply the periodical wants of the Government for the payment of the dividends, and in periods of emergency "to uphold public and private credit when called upon."

During the past year it is well known that the Government has been exposed to the double action of a deficient revenue, and an increasing expenditure; under such circumstances the aid which it invariably requires from the Bank to enable it to discharge its fixed periodical payments we may presume must have been unusually large. This may possibly account in part for the increase in the securities of the Bank. At the same time it will afford no justification of them. In undertaking to make the increased advances to Government, the Bank necessarily subjects herself to the obligation to realize some other class of her securities, for the purpose of preventing an undue increase in the general amount of her liabilities. The advance ought to be made from the resources of her banking department, and not from those which arise out of her control over the paper issues. If this be not done, the Government is placed in the situation of a party calling upon the Bank, with an authority which amounts to a command, to depart from the course which duty prescribes to her, and to violate those rules, a rigid adherence to which is essential for maintaining the con-

vertibility of her notes. At all events, the increasing demands of Government upon the Bank, at a period when a decrease of her circulation is become a matter of vital importance, must give rise to very serious reflections.

It was observed by Mr. Ricardo in his pamphlet, "High price of bullion proof of depreciation of Bank-notes," that "It was owing to the too intimate connection between the Bank and Government that the restriction became necessary; it is to that cause too that we owe its continuance." From the same cause also, in all probability, the danger to which our monetary system has been recently exposed has in a great degree arisen.

The profit to be derived from a paper circulation legitimately belongs to the Government; and a permanent advance to it of a fixed sum, as representing that portion of the circulation which is beyond the reach of fluctuation, is an arrangement to which no valid objection can be urged. But inconvenience, and even danger, may arise from the custom which subjects the manager of the circulation to the obligation of supplying those periodical wants of the Government, which are liable to considerable variations in amount, and which are usually largest, at those periods when general considerations demand a decrease and not an increase of the circulation. "Experience shows how little the Bank Directors have been able to withstand the cajolings of Ministers; and how frequently they have been induced to increase their advances in Exchequer-bills and Treasury-bills, at the very moment when they were themselves declaring that it would be attended with the greatest risk to the

"stability of their establishment and to the public
 "interest. * * * * *

"If Government wants money it should be obliged to
 "raise it in the legitimate way; by taxing the people;
 "by the issue and sale of Exchequer-bills, by funded
 "loans, or by borrowing from any of the numerous banks
 "that might exist in the country; but in no case should
 "it be allowed to borrow from those who have the *power*
 "*of creating money.*"—*Ricardo.*

VI. The obligation on the part of the Bank to uphold public and private credit when called upon, is a subject which requires very serious consideration. This extraneous support to credit will be most required in periods of commercial pressure, and under those circumstances which are the necessary and direct results of a contraction of the circulation. The Bank seems thus called upon to act in a circle; a decrease of bullion requires a decrease of issues; decreased issues produce commercial pressure; in consequence of which, public and private credit is shaken; and then arises the obligation of the Bank to interpose for its support. This interposition must necessarily assume the form of an increase of discounts, and hence a second class of securities, which, in a period of pressure, instead of being diminished must be increased.

Upon this subject, the power of contracting the circulation by diminishing the amount of discount during an efflux of bullion, a great change of opinion has taken place, the progress of which it is not a little curious to trace.

We have already observed that the Court of Directors in 1819 considered the repayment of a large portion of the advances made by the Bank to the Government, as essentially necessary preparatory to the resumption of cash payments. The reason for this demand, assigned by the Directors and acquiesced in by the Legislature, was, that over the notes issued in the form of advances to the Government, they had not practically the same control as they have over notes issued in commercial discount. "An issue of Bank paper upon Government security is beyond the control of the Bank; an issue upon commercial bills is always within the power of the Bank."—*Mr. Dorrien, the Governor's evidence, p. 32.* This view was sanctioned by Mr. Haldimand, a younger Director than Mr. Dorrien, and who in his evidence maintained very different and more enlightened opinions upon the general question of the management of a paper circulation. He states, "I have no hesitation in saying that had the Bank the control over the whole of its issues, or in other words, were the whole or nearly the whole of its paper issued upon commercial discounts, by diminishing such issues it might pay its notes in specie within the most limited period, and with the most perfect safety to itself."—*p. 43, q. 31.*

These opinions, emanating from the Bank Directors, were adopted and sanctioned by the Parliamentary Committees before which they were given. "The issues of notes upon discount, revert to the Bank at periods so short, that any reduction of the paper so issued, which circumstances may render necessary, is always within

“their reach; with this control over their issues, they are
 “enabled to feel their way, and to restrict or enlarge
 “them, either as the wants of the country may permit or
 “demand, or as the state of the exchanges and the price
 “of gold may appear to require.”—*Lords' Report*, p. 10.

The abstract possibility of contracting issues by an absolute refusal to discount cannot be doubted; the real practicability of such a step as a measure of business is, however, much more questionable; and had the Parliamentary Committees of 1819 put the question to any experienced banker, whether, in a period of commercial pressure, he considered it possible to reduce the amount of his discounts, the answer would probably have led them to a more correct view of this subject. Let us now contrast with the opinions we have quoted, the evidence given by the Directors of the same concern thirteen years afterwards.

Mr. Horsley Palmer's evidence:—

“Do you not hold that the discount of private paper is one of the
 “worst means which the Bank, as a bank of issue, can adopt for
 “regulating its notes?” “Yes, provided they are adequately sup-
 “plied with other marketable securities.”—q. 173. Again, “It is
 “not deemed to be desirable to attempt to regulate the amount of
 “issues of the Bank in London through commercial discounts, but
 “there are occasions and circumstances when the functions of the
 “Bank, as a bank for commercial discounts in the capital, have been
 “and ever must be of the first importance to the country;” and at
 the close of the same answer it is stated, that “to be compelled to
 “limit the quantity or description of bills to be tendered for dis-
 “count, either of these measures would be equally detrimental to
 “the commerce of the country.”—*See question and answer 477*,
 p. 36.

Mr. Ward is asked in what way he would shorten the amount of currency in preparation for an expected turn in the exchanges against the country.

"I have always endeavoured that the Bank should be possessed of a certain number of securities coming in to it, so that a discretion should be exercised as to whether we should issue it again; the Dead Weight, the Annuities, bring in a considerable excess annually, and I should withhold the re-issuing of those moneys; I should not make a forcible operation by disappointing any person of discount," &c.—*q.* 2088, *p.* 145.

Mr. Norman :—

"Are you of opinion, supposing a large quantity of commercial paper could be obtained for discount in London, it would be desirable for the Bank of England to regulate its issues upon commercial paper solely, or would it be preferable to regulate them by Exchequer-bills?" "I certainly think, that if the issues were to be regulated one way or the other, I should much prefer Exchequer-bills. Under present circumstances, I consider it quite impossible, without at times doing immense mercantile mischief, to regulate them by discounts. The Usury Laws alone are quite decisive on that point."—*q.* 2429, *p.* 170: and subsequently, in the course of reply to another question, he observes, "I consider the attempt to reduce discounts in general, by rejecting the bills of any particular persons, as a plan likely to fail, and to be productive of great public inconvenience, and that it ought never to be adopted except in cases of the very last necessity."—*q.* 2437.

These are evidently the answers of intelligent persons, convinced by general reasoning, and confirmed in this conviction by the results of their experience, that the contraction of issues made upon discounts is, in times of commercial pressure, impracticable; that is, that the attempt to accomplish it would inevitably produce "immense mercantile mischief," equal almost to the evil which it was intended to avert.

We thus find the Bank, in the first instance, calling for the repayment of her advances to the Government, that she may have her issues more completely under her own control, and looking to her advances upon discount as the means for acquiring this power. We next find her convinced that the control she seeks cannot be obtained through that means, and almost admitting that an increase, rather than a decrease, of her issues upon discount, must be the consequence whenever commercial pressure occurs, and she is called upon to fulfil her obligation of supporting public and private credit.

Is not this an acknowledgment on her part that her connection with the Government, and also with commercial affairs, subjects her to demands which she finds it impossible to resist, although they are incompatible with the due regulation of her issues? To these causes, we can hardly doubt, the increase in her securities and the perilous position in which she has recently stood are mainly attributable; and it seems unreasonable to expect a steady and consistent course on her part, until she is released from these improper influences, and placed in such a position that she can regulate her conduct with reference to no other consideration than that of maintaining the convertibility of her notes. How is it possible that the proper relation between the paper-issues and the bullion can be steadily maintained, whilst the Bank is liable to be compelled to issue upon her deposit-accounts, upon the discount of commercial bills, and for the supply of the public wants of Government? The consequence of uniting these, which are strictly banking operations,

with a power of regulating the amount of the currency, which is a duty of a very different character, must be embarrassment to the party in whom these conflicting functions are united, and ultimately an abuse of the power which is entrusted to her. The public, looking to her as a great banking company, and estimating the duties incumbent upon her by reference to her character in that respect, hold her responsible for relieving commercial distress and upholding public credit. She finds that it is extremely difficult, as well as unpopular, to refuse the demands which are made upon her; and, therefore, easily convinces herself that it is impossible. She yields to the force of these demands, and not distinguishing between an advance of capital to merchants and an additional supply of currency to the general mass of circulating medium, she applies to the satisfaction of them, not her banking resources only, but also her power over the currency.

The state in which the Bank has recently stood is the result. The circulation but slightly diminished, and the securities largely increased—whilst the drain upon the bullion has been suffered to acquire such force, and to proceed to such an extent, as to menace the most serious danger to the safety of our monetary system.

Having quoted the opinion of the late Mr. Ricardo upon the impropriety of subjecting the manager of the currency to the necessity of supplying the demands of the Government; we may here quote an equally strong opinion by a living authority of great weight respecting the danger to be apprehended from too intimate a connec-

tion on her part with the wants of trade and the support of credit. "The old, and it was to be hoped the obsolete, doctrine, has been revived and insisted upon, that the Bank is bound in the regulation of its securities and issues to attend to the accommodation of trade and the support of credit. Under the influence of this doctrine, there can be no security for the maintenance of a sound administration of the currency. There is no degree or extent of deviation from principle to which such doctrines may not serve as a cloak. And either the bias of private sympathies, or the notion, sincere, though ill-founded, of being called upon to interfere for the accommodation of trade or the support of credit, may, under a variety of contingencies compromise the principle, which ought to be held sacred, of the convertibility of the paper."—*Tooke's History of Prices*, vol. ii. p. 342.

The disturbance in the management of the circulation, which arises from the connection of the Bank with the Government and with the trading operations of individuals, is not an evil of recent origin. As it arises from circumstances connected with the very constitution of the Bank, it might reasonably be expected, that it would develop itself in an early stage of the history of the concern; and such was the fact.

The Bullion Report of 1810, speaking of the Bank of England "within a very short period after its first establishment," states "by the liberality of the loans to private individuals, as well as by the large advances to Government, the quantity of the notes of the Bank became excessive; their relative value was depreciated, and they

fell to a discount of 17 per cent. The effects of these disturbing influences have strongly characterized the proceedings of the Bank from that time to the present day; nor can we reasonably anticipate any other result, until the confusion of functions, out of which the evil arises, shall have been effectually corrected.

VII. With the view of strengthening the hands of the Bank, and enabling it to check the otherwise irresistible demand for increased issues upon discount, the Usury Laws, so far as they affected the rate of interest charged upon discount of bills, have been repealed; and great benefit has arisen from this measure. It is difficult to say to what extremity the Bank would have been reduced at the present moment without this protecting power; even when thus armed, a reduction of her issues upon discount appears to be beyond her power, and all that she has accomplished in the present case, and probably all that she ever can effect by raising the rate of interest, is to check that further increase of issues upon discount which would otherwise be the immediate effect of a reduction of issues by the sale of other securities; and at the same time to afford to the trading world a timely warning of the danger which is at hand.

The partial repeal of these laws, however, has been of incalculable advantage to the commercial community, by securing the free circulation of capital, and the power, by the inducement of higher interest, of determining the application of it to those quarters in which the demand for it may be most intense. This is the true source from

which support to public and private credit in periods of emergency ought to be sought, and from which it will be obtained, more legitimate in its character and more effectual for its purpose, than that which is derived from an improper tampering with the circulation. Of this recent circumstances have afforded a striking illustration. It is hardly necessary to detail the circumstances connected with the assistance lately afforded to the Agency of the United States' Bank. In a pressing emergency application was made to the Bank of England for assistance to avert a contingency which it was deemed would be deeply injurious to the commercial and manufacturing interests of this country, as well as to the general state of public and private credit. The appeal was responded to by the Bank, and aid to the extent of £300,000, to be repaid in one month, was offered. This however was wholly insufficient for the purpose; and it was determined to try the effect of an appeal to the private capitalists of the country. The result is well known;—by offering an adequate inducement, capital was drawn forth, even in a period of extreme pressure, for the support of this concern, to the extent of £800,000 for an almost unlimited period.

It is impossible to blame the Bank for the limited extent of the aid which it tendered; it may indeed be difficult to justify it, under the circumstances in which it was then placed, in going so far. But the contrast is striking; and whilst it proves the limited power of the Bank to discharge its assumed duty of supporting credit, it affords most satisfactory evidence of the unlimited

means for this purpose which exist in the country, and which may now be called forth, according to the extent of the emergency. In confirmation of this view, it is satisfactory to be able to quote the high authority of Mr. Ricardo, who observes, "a great deal of stress has always been laid upon the benefits which commerce derives from the accommodation afforded to merchants by the Bank. I believe it to be quite insignificant compared with that which is afforded by the private funds of individuals."

It was essentially necessary that the alteration of the law, by which all artificial obstructions to the free distribution of capital have been removed, should precede any attempt to separate the management of the circulation from the ordinary banking operations with which it is at present too closely united. And as it was necessary as preparatory to this change, so will it be found to be the means of obviating many of the difficulties, and alleviating the inconveniences which may be apprehended as consequent upon such an alteration, when it shall take place, in our monetary system.

One further remark may be made upon this subject. The inducement offered, in the case to which we have alluded, was great; because it required a strong temptation to induce capitalists to direct their resources to that quarter, whilst the object to be gained was worth a high price. Had the same rate of interest been charged to a small dealer in a transaction of limited extent, we should have heard much of the harshness, extortion, and injustice perpetrated under the repeal of the Usury Laws. This

example, however, as well as general reasoning, may teach us to recognize the policy, as well as the justice, of leaving every man free to judge of his own interests, and to decide for himself the price, which it may be worth his while to pay, for obtaining a certain advantage, or for protection against an apprehended danger. The unexampled firmness with which the pressure under which the trading world is still suffering, has hitherto been supported, is probably attributable to a combination of causes; but there can be no doubt that the free circulation of capital, resulting from the modified repeal of the laws by which it was restrained, has materially contributed to this result. Happily in this case, as in most others in commercial affairs, where there is free competition, the interests of the community and that of the individual are never at variance. •

CHAPTER III.

On the effect of the Country Banks and Scotch Banks as Banks of Issue.

I. In any discussion which has reference to the condition of the circulation of the country, the conduct of the country issuers, and the course pursued by them, during the period under review, must necessarily claim our attention. The legislature has imposed no restraint upon the proceedings of these parties, nor are their issues subjected to any principle by which the amount of them may be regulated. To retain an adequate amount of realizable

securities, which can at any moment be converted into the notes of the Bank of England, is the only obligation under which they are placed; whilst upon the Bank of England alone is thrown the necessity of providing the specie which may be requisite for meeting the demands of the whole country: those demands which arise from the holders of the local notes, equally with those which arise from her own circulation. Under these circumstances, a limitation of the amount of the local issues must be the result, either of prudential considerations on the part of the issuers, or of the influence *necessarily* exerted by the action of the Bank of England over their measures. It is important to ascertain how far the country issues are by these means subjected to an efficient regulation.

Let us look at the quarterly returns of the last two years.

Circulation of Private and Joint-Stock Banks.

Aggregate of Circulation in three months ending	Private Banks.	Joint-Stock Banks.	Total.
	£	£	£
31st Dec. 1837	7,043,470	3,826,665	10,870,135
31st March 1838	7,005,472	3,921,339	10,926,811
30th June "	7,383,247	4,362,256	11,745,503
30th Sept. "	7,083,811	4,281,153	11,364,964
31st Dec. "	7,599,942	4,625,546	12,225,488
30th Mar. 1839	7,642,104	4,617,363	12,259,467
30th June "	7,610,708	4,665,110	12,275,818
30th Sept. "	6,917,657	4,167,313	11,084,970

It will be observed that the country issues continued to increase in amount through the whole of the year 1838, and until June 1839. In the following quarter there is a sudden and large decrease. At what period of the quar-

ter that decrease commenced we have no means of knowing ; such is the effect of average returns, especially when the average extends over a long period, in concealing the precise time and extent of the fluctuations, from which alone, in many cases, any useful inferences can be drawn. The drain upon the bullion of the Bank commenced in the early part of 1838, and continued in gentle action through the whole of that year. At the commencement of 1839 the drain became severe and continued till October. It is clear, therefore, that from the commencement of 1838 till the middle of 1839, there has been no action on the part of the country issuers, corresponding to the fluctuations of the bullion, but quite the reverse. The country issues continued to increase largely, notwithstanding a constant and heavy drain upon the bullion. About this latter period the Bank of England began to raise the rate of interest ; first to five per cent. and then to $5\frac{1}{2}$ per cent. in June, and again to 6 per cent. on the 1st of August ; and in the quarterly return following these measures we find a large and sudden diminution of the country issues. What are the inferences to be drawn from these facts ? First, we find that an unfavourable state of the exchanges, indicated by a continuous decrease of bullion, does not restrain, but apparently rather tends to augment the country issues. Secondly, we find the Bank of England under these circumstances compelled to resort to what are deemed by many persons severe measures, in the successive advances of the rate of interest ; and subsequent to this action on the part of the Bank, as the effect of it and not as acting concurrently with it, we

find a large decrease of the country issues. Thirdly, this decrease is too long delayed, and when it does occur it is sudden and violent. The commencement of the decrease cannot have occurred before the month of June, 1839, fifteen months after the commencement of the decrease of bullion, and six months after the drain had become very severe. The amount of the decrease in the first quarterly return after its commencement is £1,200,000, or about one-tenth of the whole amount of the country issues. With these facts before us, can we doubt that experience amply confirms what general considerations would lead us to expect, viz. that a multiplicity of issuers, subject to no general rule for their guidance, must tend to disturb the due regulation of the currency?

In the commencement of a drain of bullion their issues are augmented instead of being decreased, and thus the counteraction of the drain is delayed, and the measures for correcting it are rendered more severe than would otherwise have been necessary; and again, when by these measures contraction on their part has been rendered unavoidable, their undue tardiness in commencing the contraction is followed by a dangerous rapidity and violence in carrying it out. Had the country issuers commenced their contraction in April 1838, when the bullion first began to diminish; or in October, when contraction on the part of the Bank of England first commenced, the serious danger to which the monetary system of the country has been exposed might very possibly have been altogether avoided. At all events, such a course on the part of those bodies would have tended to facilitate that

rectification of the currency which, under an opposite course of procedure, it has been found so difficult to effect; and at the same time it would have given some sanction to the doctrine that the country issues necessarily and immediately conform in their fluctuations to those of the Bank of England.

II. These views respecting the limited extent of the power which the Bank of England possesses over the conduct of the country issuers, we are aware, are in some degree, opposed to a doctrine upon this subject which has been countenanced by the highest authority. In the Report of the Committee of the House of Commons of 1819, it is observed, "There may be reason to infer from the opinion of the witnesses most conversant with the management of Country Banks, and to whose evidence your Committee beg leave to refer, that a reduction in the amount of the notes issued by the Bank of England would speedily and necessarily be followed by a proportionate reduction of the Country Bank paper." This opinion is given, however, incidentally, and rather upon the authority of statements made by some of the witnesses, than as the deliberate conviction of the Committee. The same doctrine had been previously propounded in a more distinct and formal manner by an authority, of which it is impossible to speak but in terms of the highest respect, the late Mr. Ricardo. The point is discussed in his admirable tract "The high price of Bullion a proof of the depreciation of Bank Notes," in which he observes, "The Bank of England is the great

“regulator of the country paper. When they increase
“or decrease the amount of their notes, the Country
“Banks do the same, and in no case can Country Banks
“add to the general circulation, unless the Bank of Eng-
“land shall have previously increased the amount of their
“notes.” At a later period, Colonel Torrens, than whom
amongst living authorities no one is entitled to more
attention, has added the weight of his opinion to this
doctrine. He contends that the Bank of England “has
“uncontrolled dominion over the circulation of the king-
“dom, and that when they decree a contraction of the cur-
“rency, the provincial banks of issue, instead of resisting
“obey and suffer.”—*Letter to Lord Melbourne*, 1837, p. 48.

It is contended in support of their view, by the
authors above quoted, that the contraction of the circu-
lation of one issuer, whilst that of the other issuers in the
same country remains unchanged, produces an increased
value of money, and a corresponding fall of prices, in the
district in which it takes place; that hence arises a dis-
turbed state of the exchange between that and other
districts; in consequence of which, money is drawn from
those other districts to that in which its value has been
raised; that to effect this remittance of money, the notes
circulating in the districts in which the circulation has
not been contracted, are sent in to the issuing banks, and
bills demanded in exchange for them upon the district in
which the contraction has taken place; and that by this
process, a corresponding contraction of issues in those dis-
tricts is inevitably brought about.

This doctrine involves two assumptions. First, that

the district in which each issue circulates is completely separated, so far as circulation is concerned, from the rest of the country, and especially from the district in which the central issue circulates, as completely as one country is separated from another.

Second, and this is the more important consideration, that the effect produced by the process described, follows immediately the action of the cause ; so that no period intervenes between the action of the central issuer, and the corresponding effect upon the country issues, within which phenomena of an opposite character may arise, and effects corresponding to those phenomena be produced.

In each of these assumptions there seems to be a fallacy involved.

— The paper issues of this country are not like the currencies of different countries ; each in the undisputed possession of its own district, beyond the reach of interference, and subject to no other influence than that which arises from variations in its own amount, or from the operation of the general law, by which the equilibrium is ultimately established between the currencies of different countries. They are, on the contrary, *competing* issues ; each endeavouring to encroach upon the other, and to appropriate to itself, at the expense of its competitors, a larger proportion of the whole circulation of the country.

Although the Bank of England is protected from the effect of competition as regards the supply of paper-money in the metropolis, still an important portion of her issues circulates in the country, and is exposed to the competing action of the country issuers. The

efficiency of her controlling power is thus impaired, and the period of accomplishing its results is delayed.

“There is of course always a contention between the “country banks and the Bank of England to fill as “many districts as they can with their respective notes.” —*Ricardo's Evidence*, 1819.

Hence it arises, that an expansion by one issuer may very naturally lead to a corresponding expansion by the other issuers; such is the legitimate result of competitive action; but it by no means follows, that similar results will ensue when the action is in the opposite direction.

In the case of the contraction of the paper circulation of any given country, the void created by that contraction cannot be filled up by a corresponding increase of the paper issues of any other country; the contracted circulation must produce its legitimate effects in enhancing the value of money, and lowering prices in the country in which it takes place. But the case is different with respect to a contraction of issues, by one amongst many issuers in the same country. Here the void created by the contraction of one, may be simultaneously filled up by the expansion of another; and the alteration in the value of money and in prices be prevented, or at all events materially delayed. This is the consequence of the competing character of the issues in the same country. The desire to extend his own issue is the motive of each issuer; this motive will lead each party to meet an expansion of issue on the part of others by a corresponding expansion on his own part; but it will also lead him to look upon contraction in any quarter as

a favourable opportunity, not for contracting, but for expanding his own issues, with the view and in the hope of possessing himself of the ground from which his rival has receded.

When the central issuer contracts his issue, the effect is felt, principally, perhaps, but not exclusively, in the circle which immediately surrounds that centre; a scarcity of money and a pressure upon trade is felt throughout the country. The local issuer, in the first instance, meets this, not by a corresponding contraction, but by an increase of his issues. He is induced to resort to this course by several considerations; first, such increase of his issues is a ready relief to himself, under the tightness of money, (to use the common expression,) which the action of the central issuer has produced; second, it enables him to extend his accommodation to his customers, at a time when it is most wanted, and the tender of it is most valued; third, it affords him some probability that he may be enabled to occupy permanently with his issue, that portion of the circulation, at least in his immediate neighbourhood, which has hitherto been filled by the notes of the central issuer. These are not mere theoretic suppositions; we have little doubt that these motives are constantly in action and exerting a practical influence over the conduct of the country issuers. They explain that phenomenon, the constant occurrence of which is proved by the published returns, viz. an increase of country issues, immediately following the commencement of the drain of bullion, and the first contraction of the central issuer.

When, however, the central issuer, by a steady prosecution of his system of contraction, has produced, not only the numerical reduction of his notes, but the more important moral results, which are evidenced by the shock given to confidence and credit; when in fact he has succeeded in effectually restraining the "credit currency" of the country, then the country issuer, in common with all parties engaged in monied or commercial operations, submits to this influence; and in proportion as his first steps had been in the wrong direction, so his subsequent retreat is sudden and rapid.

We thus arrive at the explanation of the second phenomenon, equally verified by the published accounts, viz. the tardy, but when it arrives, the abrupt and violent reduction of the country issues.

When contraction of the general circulation of the country becomes necessary, the country issuers, it must be observed, do not at once unite in a common action with the central issuer, and thus become joint-agents with it, in producing the requisite effect upon commercial operations; they rather belong to the party acted upon, and the reduction of their issues, like the contraction of credit and the fall of prices, is an effect produced by the action of the central issuer; and not, as it ought to be, a voluntary procedure, springing up simultaneously, and acting in concert, with the contraction of the central issuer. "When the Bank of England," says Colonel Torrens, "decrees contraction, the country banks of issue, "instead of resisting, obey and suffer." It would have

been more consonant, as we conceive, to the real course of events, had he said, the country banks of issue first resist, then suffer, and, in the end, submit. (See Appendix B.)

The effects produced, during the intervening period, between the first action of the central issuer, and the ultimate submission by the country issuers to the course imposed upon them, are very important, and call for our serious attention. The country issues, no doubt, are based upon those of the central issuer, and must ultimately conform to them; but, previously to that result, a struggle ensues, by which the monetary system, generally, is exposed to confusion and danger, and the corrective measures of the central issuer are rendered more stringent and severe than they would otherwise have been.

III. As this is a point of considerable importance, and any attempt to controvert an opinion sanctioned by the authority of Mr. Ricardo and Colonel Torrens, requires all the support which can be given to it, we must request the attention of our readers to one or two practical illustrations of deviation, on the part of the country issuers, from the course pursued by the Bank of England.

In the evidence given by Mr. Ward, before the Committee of 1832, we find this statement. "I always believed, in Mr. Horner's time, that his principle was completely right; and, from being connected with the exchanges, I was able to see many practical circum-

“stances which tended to shew that the fact was so; but
“with regard to the Bank, over and over again, they
“found the practice wrong in their estimation, because
“the exchanges did not follow the Bank of England
“circulation; but they did not know what the country
“circulation was then, and it was not till the year
“1819 that we got a good account of the country
“circulation, and then we found, that putting the two
“together, it gave a very different account” (p. 143,
Q. 2074).

Had it been true, that “when the Bank of England
“increases or decreases the amount of its notes, the
“country banks do the same,” the fact here stated by
Mr. Ward could not have occurred. The exchanges
must in that case have followed the Bank of England;
and the putting together of the two, Country and Bank
circulation, could not have given a different account from
that which was obtained from a statement of the Bank
circulation only. We have, in this statement, distinct
testimony to the fact, that the action of the Bank of
England was over and over again counteracted by the
country issuers; to the extent even of preventing the
action of the Bank of England from producing its proper
effect upon the exchanges.

Again, in 1835 and 1836, we have an example of an
increase of the country issues accompanying a decrease of
those of the Bank. The circumstances of this case can-
not be so well stated as by quoting the words of Mr.
Norman in his very instructive “Remarks on Currency
“and Banking.”

By a table to which he refers, it appears that Bank of England circulation was—

in Sept., 1835,	£17,320,000
in June, 1836,	17,184,000
Decrease....	<u>£ 136,000</u>

Country bank circulation was—

in Sept., 1835,	£10,420,000
in June, 1836,	12,202,000
Increase....	<u>£ 1,782,000</u>

Upon this large increase of the country issues, not based upon any corresponding increase by the Bank of England, Mr. Norman observes, “it may be well to direct the reader’s attention to the tabular statement, with a view to point out the conclusive evidence it affords, in refutation of the elaborate reasoning of Colonel Torrens, intended to show that the Bank of England has always the power of controlling the issues of provincial banks, within a period so short as to prevent any derangement in the whole currency. We there see an almost progressive increase in the latter part of 1835, and the first six months of 1836, in the circulation of the joint-stock and private banks, while that of the Bank of England had on the whole diminished, and this during a period of time quite long enough to influence prices, and cause great mercantile miscalculations.

“ It is very true that convertible paper cannot permanently be depreciated, that it must at length become equivalent to the specie it represents; but under

“ certain circumstances the adjustment may be long deferred.”

A similar contrariety of action on the part of the Bank and the country issuers occurred again, in a still more marked and striking manner, in the two last years ; to which we have already directed the attention of the reader.

IV. A speech, delivered in the House of Commons on 8th July last by Mr. Hume, has been printed and circulated, the principal object of which is to prove that the great variations which have occurred in the value of the currency, and the severe pressure on the money-market in 1825-6, and again in 1836-7, are *wholly* owing to the mismanagement of the Bank ; and that great blame has been unjustly cast on the other banks of issue, attributing to them those derangements of the currency which have been caused by the over-issues of the Bank of England. Annexed to that speech is a table of the liabilities and assets of the Bank, and, also, a statement of the circulation of private and joint-stock banks, from an examination of which the following facts are derived :—

BANK OF ENGLAND.

Highest circulation, Oct. 1833	£19,823,000
Lowest „ Jan. 1836	17,262,000
Greatest amount of fluctuation	£ 2,561,000 or about 14 per cent.

COUNTRY ISSUES.

Highest circulation, June 1839	£12,275,000
Lowest „ Sept. 1837	10,142,000
Greatest amount of fluctuation	£ 2,133,000 or about 20 per cent.

It thus appears that the maximum of fluctuation in the circulation of the Bank of England is considerably less than the maximum of fluctuation in the circulation of the country issuers.

But the fluctuation of the country issuers not only exceeds that of the Bank of England in extent, it also acts in the opposite direction to it.

Bank of England Issues, September, 1834.....	£19,126,000
Ditto June, 1836.....	17,899,000
DECREASE of Bank Issues from } Sept. 1834, to June, 1836 }	£ 1,227,000
Country Issues, September, 1834.....	£10,154,000
Ditto June, 1836.....	12,202,000
INCREASE of Country Issues from } Sept. 1834, to June, 1836 }	£2,048,000

Again,

Bank of England Issues, September, 1838.....	£19,665,000
Ditto June, 1839.....	18,101,000
DECREASE of Bank Issues from } Sept., 1838, to June, 1839 }	£ 1,564,000
Country Issues, September, 1838.....	£11,364,000
Ditto June, 1839.....	12,275,000
INCREASE of Country Issues from } Sept. 1838, to June, 1839 }	£ 911,000

Here are two striking instances of continuous increase of issues by the country issuers during a period when the Bank issues had been contracted. And it must be further observed, that the highest amount to which the country issues have ever been carried was in June, 1839; a period

of unfavourable exchanges, of heavy drain upon the bullion, and when every consideration required a diminished, and not an augmented, amount of circulation.

But furthermore, the periods at which the circulation of the Bank of England and of the country issuers attain their maximum and minimum points have no tendency to coincide, as they ought to do, and as they would do, under a sound system of managing the circulation.

Maximum Circulation of Bank of England

October, 1833	£19,823,000
Ditto of Country Issuers, June, 1839	12,275,000

Again,

Minimum Circulation of Bank of England,

January, 1836	£17,262,000
Ditto of Country Issuers, September, 1837	10,142,000

We will allude only to one further fact derived from these tables. The minimum circulation of the country issues was in September, 1837, and they reached their maximum in June, 1839.

Country Issues, September, 1837.....	£10,142,000
Ditto June 1839.....	12,275,000
Increase	£ 2,133,000

This large increase of issue on the part of the country issuers must of course have taken place in obedience to the controlling power of the Bank of England; she must have decreed increase of issue and they must have obeyed. What are the facts of the case?

Bank of England Issues, September, 1837	£18,814,000
Ditto June, 1839	18,101,000
Decrease.....	<u>£ 713,000</u>

The Bank, it appears, decreed *diminution* of issue, and her country subjects replied by a large *increase* of issue!!

But what during this period was the state of the bullion, by which all paper issues, Country as well as Bank of England, ought to be regulated?

Bullion, September, 1837	£ 6,303,000
Ditto June, 1839	4,344,000
Decrease	<u>£ 1,959,000</u>

It thus appears that between the month of September, 1837, and June, 1839, whilst the bullion suffered a large diminution, and the issues of the Bank of England were certainly not increased, the Country Banks augmented their issues full 20 per cent.; having, during this very period, carried them from a point of extreme depression to an amount higher than they had ever before attained.

These facts are irreconcilable with the doctrine which maintains that the Bank of England has uncontrolled dominion over the circulation of the country; and unless they can be disproved, it is unreasonable to attribute the derangement of the currency *wholly* to her mismanagement.*

* When a derangement of the circulation took place on a former occasion (1837) and was attributed entirely to the misconduct of the

That the Bank of England is liable to the charge of undue delay in commencing the contraction of her issues, and of the want of sufficient firmness in making that contraction correspond to the extent of the drain upon her bullion, we are not disposed to deny: indeed we have been amongst the foremost in maintaining this doctrine. At the same time we cannot exonerate the system upon which the country issues are established, from its fair share of blame; and that, we think, must be admitted to be considerable, when it is shewn that the country issues fluctuate in amount to a greater extent than those of the Bank of England, and that in critical periods they have increased, whilst the bullion and the issues of the Bank of England have been in course of reduction. " So long
" as any individual or set of individuals, may usurp the
" royal prerogative and issue paper without let or hin-
" drance, so long will it be issued in excess, in periods
" when prices are rising and confidence high; and be
" suddenly and improperly withdrawn, when prices are

country issuers, the writer, in a pamphlet published by him at that time, endeavoured to show that the Bank of England had not regulated her issues with that strict regard to principle which would warrant her in throwing the blame entirely upon other parties. The charge is now directed to the opposite quarter; and in reply to it he has endeavoured to show that the conduct of the country issuers has not been of that unexceptionable character which will exempt them from censure, and leave it to fall exclusively upon the Bank of England. Neither party has conformed in the regulation of its issues to the state of the bullion—nor, omitting that consideration, have the fluctuations of the country issuers conformed to those of the central issuer.

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"falling and confidence shaken."—*M' Culloch's Notes to Adam Smith.*

In our endeavour to ascertain the extent to which the country issues interfere with the Bank of England, and obstruct her efforts to regulate the circulation, we are most anxious to state the case with perfect fairness; to extenuate nothing, and at the same time to set down nothing against them unjustly. It is therefore a subject of great satisfaction to be enabled to state our own conclusions in the words of a writer, whose authority is entitled to the greatest weight, both on account of the extreme care with which he balances conflicting considerations, and the measured and cautious language in which his conclusions are stated. "It may be remarked "of this portion of the circulating medium (country bank paper), that supposing it to bear for local purposes, a "certain due proportion to the basis of the currency, the "deviations from this its due level have been, not only "during, but before and since the restriction, very considerable, expanding under circumstances, and in a "state of opinion, favouring a rise of prices, and collapsing under the opposite circumstances; and these "expansions and contractions have, in the majority of "instances, not been preceded by any corresponding "variations of the Bank issues, although eventually they "have come under the limitation and control of the Bank regulation."—*Tooke's History of Prices*, vol. 1, p. 148.

V. Upon this branch of the subject it is necessary to keep in view the important distinction between the vices

of a system, and the misconduct of those who administer that system. The one is often confounded with and mistaken for the other; in consequence of which, injustice is done to individuals, and remedial measures, being misdirected, lose their efficiency. The system of our country issues may be deserving of all condemnation, whilst the individual conduct of the issuers may be no just subject for censure. Law, it has been said, is the educator of nations; and certainly in the case before us the course pursued by a highly respectable and important class is the natural, we might even say the necessary, result of the laws under which they act. The legislature has given to the country issuers the formidable power of creating money, and at the same time has opened before them the whole field of private interest in which to exercise that power; it has laid down no rule to guide them in the right course, nor any motive to induce them to follow it. When individuals pursue their own interests, without violating the laws of their country or the just rights of their neighbours, they are beyond the reach of censure; and if in this natural and legitimate course of procedure their measure militate against the public interest, the fault rests not with them, but with the laws within whose limits and under whose sanction they are acting; it is by reforming the latter and not by dealing out censures against the former that the true remedy must be sought. The most stern maintainer of the doctrines of the Bullionists, if placed in the same circumstances with the country issuers, would act as they have acted. Their measures are the result of principles

common to human nature under all circumstances, and which it is the appropriate business of wise legislation so to control and direct as to render them productive of public as much as of individual advantage. When this result is not attained, we are necessarily involved in the dilemma of being obliged to blame the acts, whilst we can find no just fault with the agents. We "love th' offender
"yet condemn th' offence."

VI. The state of the circulation of Scotland is often referred to, as affording a striking example of the advantages of a well-managed currency, obtained through the system of multiplied issuers, all acting upon equal terms and independently of each other. It is to this case the advocates of competition for the regulation of a paper currency usually appeal; conceiving that it presents a practical demonstration of the soundness of their views.

The magnitude of the Scotch banking companies and the limited number of them; the great respectability of the parties engaged in the management of them; the abundant resources which they are well known to possess; and the successful career which they have long pursued; all these circumstances combine to secure, and justly so, to these establishments, a high reputation as banking concerns. Prudence in the conduct of their business, and ample security for the safety of all their transactions, and especially for the solidity of the paper money which they issue, are, beyond all doubt, characteristics highly creditable to the Scotch system of banking. In these respects, as far as regards Credit, Prudence, and

Wealth, the Scotch banks present themselves to the public eye, in a drapery at once gorgeous and attractive; but when we come to examine the internal machinery of them, not as banking establishments, in which respect they are unexceptionable, but as managers of the circulation of that country, possessing the power of regulating and controlling the amount of the paper issues, we much doubt whether they will be found to be free from those vices which attach generally to all systems, involving a multiplicity of issuers.

In one respect, and that a very important one, the Scotch issuers are similarly circumstanced with the country issuers in England.

They are not subjected to the necessity of providing gold on their own account to meet their issues. That obligation as regards the Scotch circulation devolves exclusively upon the Bank of England, as much as it does with respect to the local issues of this country. It is only necessary for the Scotch Banks, in common with the country banks of England, to hold a sufficient amount of realizable securities, by which they can obtain a command of Bank of England notes. No farther duty is imposed upon them; and if gold is required either in consequence of the state of the foreign exchanges, or of internal demand, upon the Bank exclusively falls the necessity of providing it. Hence the Scotch banks are under no direct obligation to regulate the amount of their issues by reference to the state of the exchanges.

From the rivalry of English issuers, it is true, the Scotch Banks are sufficiently protected; neither our local

notes, nor those of the Bank of England, have any footing in Scotland. A line of demarkation, in this respect, is established by usage and the habits of the people between the two countries; and the Scotch issuers are subjected to no other competition than that which springs up amongst themselves. To this extent, however, they are to all intents and purposes rival issuers; anxious each to extend its own issue; and watchful, lest by want of sufficient activity, any portion of the common field of action should be lost to them, and occupied by a competitor. Is it possible to doubt that under such circumstances, there must exist on the part of the Scotch Banks a constant tendency to expand the circulation of each concern; subject to no restraint, but that which arises from the operation of those unalterable principles which fix a limit, beyond which the aggregate circulation of the country cannot be permanently extended?

If in opposition to these general considerations it is contended that the Scotch banking system presents a peculiar exception; and that the issues of that country are not subject to those fluctuations which occur in currencies similarly circumstanced elsewhere,—this fact must be established on the part of those who assert it, by some direct and positive proof.

The best evidence would be a periodical statement of the amount of the Scotch issues, similar to that which is now published of the country issues of England. Such a statement would render further discussion needless; as it would at once shew with what degree of accuracy, both as to time and amount, the fluctuations of the Scotch

issues correspond with the variations in the amount of bullion, or of the Bank of England circulation. But to such a test we have no power of appealing.

The next best evidence then is to be found in the general state of trade and steadiness of prices. A better managed circulation, if it exists, ought to evidence itself by its effects, in a more steady and healthy state of things, as regards prices and the condition of trade. We are not aware, nor indeed do we believe that it is ever asserted, that any difference can be traced in these respects between Scotland and England; the variation of prices is as great, the spirit of speculation is as active, in the trading districts of the one country, as in those of the other; the commercial storms which occasionally desolate the manufacturing plains of Yorkshire and Lancashire are not arrested in their progress when they reach the borders;—Glasgow and Paisley feel their force as much as Manchester and Leeds; and in fact all the evils to which a trading community is exposed; fluctuation of prices, recurrence of commercial pressure, stagnation of markets, losses by insolvency, occur with as much frequency and intensity under the Scotch system of currency, as under that which exists in England.

We have therefore neither the direct proof, which is to be derived from published accounts alone, nor the strong presumptive evidence which might be drawn from an habitually more healthy state of trade, in favour of the superiority of the currency of either country over that of its neighbour.

But we are told that the mode in which the accounts

are worked upon the Scotch system, and the exchange of notes by the Banks amongst each other, have a strong tendency to prevent over-issue. What proof, however, is adduced of this assertion? It looks very like reasoning in a circle. It assumes the goodness of the Scotch system, and upon that assumption as its premiss, it proceeds to found the proof of the thing assumed. Is it possible that such a system may have a tendency to check the disturbance of the mutual proportions of the different issuers amongst each other; but it is not very easy to perceive in what way it can tend to prevent a general tendency of the Scotch issues to run to excess.

The improper fluctuations in the amount of the paper currency of England arise from three circumstances. First, That currency is issued under the influence of competition, which necessarily tends to produce excess. Second, It is issued in the form of advances for commercial purposes. A rise of prices is therefore accompanied by an increase of issues, and a fall of prices by a diminution of issues; and thus greater fluctuations take place than would occur with a metallic currency. Third, The issuers generally are not placed under a direct obligation to provide themselves with the gold requisite to meet the demands upon them, and therefore have no sufficient inducement to look to the state of the exchanges in regulating the amount of their issues. In all these respects the Scotch system of circulation is equally defective with the English; and no reasonable ground whatever is assigned for supposing that the same causes do not produce in each country the same effects.~

The solidity of the paper money in Scotland is perhaps more effectually provided for than in England. Insolvency on the part of the issuers is of less frequent occurrence; and from this fact, too hasty a conclusion is not unfrequently drawn in favour of the general superiority of the management of the circulation in Scotland. Security for the ultimate solvency of those who issue paper money is confounded with, and conceived to be the same thing as, security for the due regulation of the amount of that paper money;—a fallacy very prevalent, and from which the most erroneous views arise. (See Appendix C.) Insolvency on the part of an issuer affects the specific holders of the notes of that issuer, and those only; but improper fluctuations in the amount of the paper issues affect the whole community in common; they disturb to a greater or less extent, the steadiness of prices, and the regular movements of trade; they tend to derange the equilibrium of exchange with other countries; and if not subjected to timely control, they may endanger the very basis of the whole monetary system of the country in which they occur. The former evil is local and particular; the latter is general, affecting the whole country and every individual in it. A system therefore which affords protection against the former evil, but contains no unusual or definite provision against the latter evil, must still be considered as defective in the most essential point. This we conceive to be the actual state of the management of the circulation in Scotland; good, so far as the security of those who hold the notes is concerned; vicious, equally with the English system, in all that respects the

due regulation of the fluctuations in the aggregate amount of the circulation.

VII. This discussion might very naturally carry us forward to a consideration of the state of the circulation in Ireland; it is unnecessary, however, to pursue the subject further. The principles which we have discussed, if true at all, are universally true; and the objections to multiplied and rival issues of paper money are not more applicable to England and Scotland than they are to Ireland. The first determining step of the legislature upon this subject will probably be taken with reference to the latter country; and the course pursued with respect to the renewal of the Charter of the Bank of Ireland will decide the future character of our general legislation respecting the management of the circulation. The public must come to a practical decision between the opposing plans. Rival issuers, equal in power and unlimited in number, on the one hand; a single issuer, limited in his functions but invested with plenary power for the discharge of them, on the other hand, are the respective principles, however much they may each be modified by the details of practical arrangements. If the decision is to be first taken upon Irish ground, let not this accident mislead the public by the impression that it is a question of exclusively Irish interest. A precedent is to be established, a principle is to be decided, which will hereafter, and at no distant period, be applied to the monetary regulation of the whole kingdom. We trust this subject will attract the attention which it deserves; it is not the

extent or magnitude of the movement which gives importance to legislative action, so much as the direction in which it tends; and measures, in themselves of limited importance, often lead to most extensive consequences, because, unperceived at the moment, they have established a principle susceptible of wide application.

CHAPTER IV.

On the Consequences which depend on a good or bad Management of the Circulation.

I. The system upon which our paper-issues are managed, and the causes of the fluctuations which so frequently occur, have thus far engaged our attention. For the complete understanding of the subject, it is necessary that we should now consider in what manner and to what extent the interests of the community are affected by a good or bad management of the circulation. Doubts have been raised as to the effect which any degree of mismanagement of a paper-currency, so long as it is convertible and the issuers of it continue solvent, can produce either in creating, intensifying, or prolonging the evils of commercial oscillations. Whilst some parties, as we have seen, attribute the fluctuations of trade, and the not unfrequent recurrence of mercantile and commercial difficulty, almost exclusively to mismanagement of the currency; other persons have taken a very different view of the subject.

Fluctuations in trade, they contend, are necessarily connected with the very existence of commerce; variations in the relation of supply and demand arise out of natural circumstances, and will produce alternations of prosperity and depression, whatever be the circulating medium, and in whatever manner regulated. The case would not be different were the circulation wholly metallic. Speculation, according to their views, originates in causes unconnected with the state of the currency; and although an undue amount of issue may aggravate the evil, where it exists; yet prices are but indirectly and distantly connected with variations in the amount of the currency, whilst other causes affect them more immediately and more powerfully. (See Appendix D.)

It is desirable, no doubt, that a correct understanding should exist on this point. Exaggerated views of this, as of any other subject, may very possibly have been indulged in by those who direct an exclusive attention to the examination of it; but we must not on that account run into the opposite extreme, and close our eyes to the serious consequences to a trading community, which depend upon the regulation of the circulating medium. The currency in which all transactions are adjusted has the same reference to the healthy state of trade, which the atmosphere in which we all live has to the physical constitution of our bodies; irregularities and disorders may arise from a variety of causes, but the duration and virulence of them will materially depend upon the pure, healthy, and well-regulated condition of the medium in which they exist. A well-managed currency cannot prevent the occurrence

of periods of excitement and over-trading, nor of their necessary consequences, commercial pressure and distress; but it may tend very powerfully to diminish the frequency of their return, to restrain the suddenness of their outbreak, and to limit the extent of their mischief. The connexion again between fluctuations in prices and variations in the amount of the circulating medium is a question of extremely difficult solution in its detail; and, probably, after the most laborious investigation of it, we can only come to the conclusion, that the immediate effect upon prices of any variation in the amount of the circulation may be over-estimated, whilst there undoubtedly exists a very intimate connexion between them. Indeed, unless this be admitted, the whole doctrine of regulating the circulation by reference to the state of the exchanges falls to the ground, and we are left without any principle upon which the management of the circulation can rest.

Whatever differences of opinion, however, may exist as to the extent to which either fluctuations in the state of trade, or the rise and fall of prices, are attributable to an imperfect regulation of the currency; these, it must be admitted, are secondary considerations only. Unless the paper-circulation of the country be regulated by a fixed rule, not fitful and capricious in its operation, but constant and invariable, its convertibility at all times cannot be effectually secured, and the maintenance of the value of the currency, as measured by its ancient metallic standard, must become precarious and uncertain. Upon this point the events of the past year present us

with an example pregnant with the most valuable instruction. ~

The monetary systems of the two principal commercial communities of the world have been subjected to a severe trial. In England a combination of adverse circumstances has caused a prolonged period of unfavourable exchanges; a heavy drain upon the bullion of the Bank has ensued; the necessary reduction of the amount of the paper-circulation of the country has been delayed, till some time subsequent to the commencement of the loss of bullion, and has not at any time been carried to a corresponding extent. The consequence of this has been a reduction of the bullion to a point which justly caused very serious alarm, and a general conviction that the monetary system of the country had been brought into imminent danger. The difficulty, however, there is reason to believe, has been overcome; the bullion is again increasing, and the regulation of our paper-currency by reference to its ancient metallic standard, we may reasonably expect, will be maintained.

How striking is the contrast if we turn to the United States. Connected as that country is with England in all its commercial relations, it was impossible that the circumstances which caused a heavy pressure upon the monetary system of one country should not at the same time seriously affect that of the other. (See Appendix E.) ~ The drain upon our bullion, and the measures necessarily taken to counteract it, were immediately felt in their effects upon the banking system, and upon the currency of the United States. The strength and solidity of the

system upon which the circulation of each country is established, were thus simultaneously brought to a conclusive trial; and the different result in each case might have been reasonably anticipated, from the different principles upon which the management of the circulation in each country is based.

In the United States the paper-circulation is under no general system or control. The duty of maintaining the convertibility of the notes, and the corresponding power of regulating their amount, does not rest with any specified body or institution; unlimited competition exists amongst banks of issue; and these banks combine with the business of issue, all the ordinary banking business of deposit and discount. The inevitable tendency of this system is evidenced by recent occurrences; it has proved unable to sustain the trial, and, after a feeble struggle, has altogether broken down. The convertibility of the paper-circulation has not been effectually maintained. The country is subjected to all the fluctuations and confusion which attend a suspension of specie payments, and will have to grapple hereafter with the formidable difficulties which must attend the effort to restore a sound system of currency.

This result was not unforeseen by those who had carefully investigated the principles of currency; "Supposing the Cabinet of Washington to be sustained in its views by the Representatives of the American people, and that the Union is left to be supplied with a paper-currency, by an unlimited number of banks, acting in competition, and without any control from the action

“of one powerful central body, we may anticipate, with
 “certainty, a succession of catastrophes such as we have
 “lately seen, occurring at intervals more or less distant
 “according to circumstances.” (*Norman on Currency*,
 1838, p. 60.) This striking anticipation of a monetary
 convulsion, which has subsequently occurred, is calculated
 to create confidence in the truth of the principles upon
 which the prediction was founded; and to establish the
 assurance that a careful investigation of general prin-
 ciples will always prove to be the best guide through the
 intricacies of practical details.

In England, the paper circulation is established on
 the sound principle of vesting in one institution the
 power of controlling its amount, and the duty of main-
 taining its convertibility; but that principle is very
 imperfectly carried out; the power of control is incom-
 plete; rival issues, though of a subordinate character, are
 permitted; banking functions are united with the manage-
 ment of the circulation, though in a more limited degree
 than in the United States.

The consequence is, that our system, by virtue of the
 sound principle upon which it is based, has sustained the
 trial to which it has been subjected; although, in con-
 sequence of the inconsistencies and imperfections which
 attach to it, the struggle has been difficult and prolonged,
 and accompanied with many well-founded apprehensions
 as to the result. Had the power of the Bank of England
 over the circulation been complete, and not counteracted
 in the first instance by the country issuers; and again,
 had the Bank been left to pursue her simple duty of

regulating the circulation by reference only to the state of the exchanges, and not been subjected to improper demands upon her in consequence of her connection with the Government and the commercial world, her difficulties would have been greatly diminished.

It is not always safe to judge of measures solely by events; and mankind are perhaps too ready to take a fortunate result as the evidence of wisdom, and failure as proof of folly. But in those cases in which events can be clearly connected with the preceding circumstances, and be shewn to be their natural and legitimate effects, we may safely infer from the nature of the results, what is the character of the system from which they proceed. In the case before us, it seems impossible to doubt that the different fate which has befallen the monetary system of the two countries is the consequence of the different principle upon which those systems are founded; and if we are intent upon profiting by experience, and wish to derive from past errors the lessons of future wisdom, we shall surely find in the respective condition and conduct of the Bank of England and of the Issuing Banks of the United States during the last year, abundant reason for repudiating the principle of competition in the management of the currency; whilst we shall perceive more clearly than ever the necessity of strengthening and extending the influence of the Bank of England as a bank of issue, and at the same time restricting, as far as possible, its connection with the business of deposits and discount.

These occurrences are calculated to convey the most

useful instruction to those who will approach them in a fair spirit of inquiry, and free from the bias of previous opinions, adopted either upon their faith in other men's judgment, or upon imperfect and hasty consideration. There still exist in this country individuals, rendered influential by their station as well as by their activity, who sanction the common clamour against the *monopoly* of the Bank of England, and attribute to that cause exclusively the instability of our currency, and the fluctuations of commercial affairs. It is the usual recourse of popular ignorance, when suffering under the pressure of an evil, the cause of which they do not understand, to attribute it to the baneful effects of some supposed monopoly.

Mr. Senior, in his Lectures on Political Economy, 1830, when describing the effect of the French assignats upon the prices of all commodities, observes: "the sovereign people felt and acted with the usual folly and violence of a despot. The depreciation of the assignats was attributed to the conspiracies of the aristocrats, and to the intrigues of Mr. Pitt. The rise of prices was explained by the favourite theory of a monopoly." Even the institution of property, that indispensable accompaniment of civilization, has been attacked by the ignorant as "the monopoly of the rich;" and under the influence of a similar feeling, those who have not taken the trouble to trace the defects of our monetary system to their true causes, at once have recourse "to the favourite theory of a monopoly." "There is nothing which requires more vigilance than the current phrases of the day, of which there are always some resorted to in every dis-

"pute, and from the sovereign authority of which it is
"often vain to make any appeal."* "Monopolies are
"mischievous." "Exclusive privileges are out of date."
"Overgrown corporations are dangerous to individual
"rights." These are all examples of such phrases. In
the majority of cases monopolies are, no doubt, injurious
to the public interests; and the notoriety of the fact ren-
ders it easy to excite against them an indiscriminate
feeling of hostility. For the purposes, however, of en-
lightened and beneficial legislation, it is necessary to
distinguish those cases in which the principles of free
competition are applicable, from those in which exclusive
privileges, accompanied by undivided responsibility, are
necessary for the public protection. Such cases, though
comparatively limited in number, exist; and when they
occur, they are not usually of a trifling or unimportant
character. The power of creating money, like the royal
prerogative of coining, are instances in point; and if,
misled by the current phrases of the day, we subject them
to the principle of free competition, instead of managing
them by an exclusive power subjected to undivided
responsibility, the injury to the public interest may be
incalculably great.

Have those, however, who sanction the popular cry of
monopoly against the Bank of England well considered
the banking and monetary condition of the United States
at the present moment? There is an example of free
competition in issues, extended partnerships, paid-up
capital, published accounts, no Monopoly. Do they there

* Sydney Smith's Works.

find stability in the currency and confidence in the commercial transactions of the country?

Again, can they seriously examine the course of monetary affairs in this country during the past year, and fail to be convinced that to the predominant power of one central issuer, we owe our present security; whilst the magnitude and imminence of the danger to which we have been exposed, is attributable to the incompleteness of her monopoly? As a contrast, and we would gladly hope that it might also act as a corrective, to the foolish prejudice, existing amongst some classes in this country, against entrusting the paper circulation of the country exclusively to one body, we may refer to the opinion on this subject, expressed by one of the most distinguished men of the United States. At a period when the legitimate consequences of free and unlimited competition amongst issuing banks were developing themselves in that country, "when the banks had suspended payments " universally, when the internal exchanges were all " deranged, and the business of the country most seriously " interrupted;" Mr. Webster, speaking in the Senate of the proper means of remedying these evils, said, "the " great measure is a Bank, because a Bank is not only " able to restrain the excessive issues of state banks, but " it is able also to furnish for the country a currency of " universal credit and of uniform value. This is the " grand desideratum. Until such a currency is established, depend on it what is necessary for the prosperity " of the country can never be accomplished."

These words of prophetic wisdom were rejected by

those to whom they were addressed; and that country is now suffering the penalty, in the unexpectedly early return of the disasters, against which this was the reasonable and only effectual preservative. (See Appendix F.)

The very existence of specie payments in this country at the present moment is attributable to the influence of one predominant issuer, charged with the responsibility of maintaining the convertibility of its notes. Without the Bank of England to warn by its example, and to control by its power, there is every reason to believe that the paper issues would have been regulated in no degree by the state of the exchanges, but solely in accordance with the apparent wants of commerce and the demands of the trading world. Increasing issues would have accompanied decreasing bullion, until even the appearance of a mutual connection could no longer be preserved, and a general suspension of payments in specie had become inevitable. On the other hand, the danger to which we have been exposed and the difficulty with which the last extremity has been averted, may be clearly traced to undue delay in commencing, and insufficient steadiness on the part of the Bank in continuing, the reduction of her issues conformably to the decrease of the bullion; and also to the imperfect power which the Legislature has vested in her of controlling the acts of the other issuers.

Will these events be suffered to pass by unregarded by us? Calamity actually sustained by one country, and narrowly escaped by another, is a warning sufficiently distinct and emphatic. These events we cannot refuse to see, neither can we close our ears to the voice which they

speaking ; but we may suffer them to remain profitless for our present instruction, and let our attention sleep until the actual arrival of the catastrophe, of which they are the heralds, shall awake us to an unavailing sense of our danger.

Our adherence to principle, to whatever extent it has been carried, has never yet failed to realize its anticipated consequences. Ought not this consideration to give us confidence in our course, and to urge us to still further advances towards that state in which the management of our circulation shall be placed upon a clear, simple, and consistent system ?

The union of banking functions with those of issue ; the obligation imposed upon the manager of the circulation to supply the uncertain and fluctuating demands of Government, on account of the public service ; the existence of rival and competing (though subordinate) issuers, not directly subjected to the obligation of regulating their issues with reference to the state of the exchanges ; the application of the rule which the Bank has laid down for its guidance, to the joint liabilities, (deposits as well as circulation) instead of applying it to the circulation only ; the too intimate connexion of the manager of the circulation with commercial affairs, and the implied duty which arises out of it of supporting public and private credit ; to whatever extent in these respects our present system deviates from that which sound views would dictate, the blame cannot with any justice be exclusively thrown upon the Bank. They are the remaining traces of a false system which was esta-

blished when questions of currency were less understood than they now are; they carried with them the approval of the Legislature and the public at large; and they have never yet been authoritatively repudiated or condemned by either. "When the Bank was most in fault, it was "most in accordance with the Government, the Parliament, and the public at large. I believe the most "unpopular tenet that ever was, was the being a bullionist twenty years ago."—*Mr. Ward's Evidence*, 1832.

It is to be hoped, however, that the progress of public intelligence will be accompanied by a corresponding improvement in our practical measures; and that with increasing experience, we shall gain increasing courage to shape our system for the management of the circulation in more strict accordance with the requirements of principle. A due regard to the inconvenience which always attends the disturbance of an existing system must not be neglected; but we need not despair of reconciling this consideration with a gradual rectification of many of the defects to which we have adverted. The evil is of a magnitude sufficient to impress us with the necessity of applying a remedy, but not such as to justify us in despairing of the result.

IV. A motion was made in the last Session of Parliament for a Committee "to inquire into the pecuniary "transactions of the Bank of England since the resumption of cash payments, and particularly to ascertain how "far these transactions produced the alarming crisis of "the manufacturing, commercial, and financial affairs of

“ the country in 1825-6 and in 1836-7; and also to
 “ inquire whether, as the Bank of England is at present
 “ constituted, there ever can be stability in the currency
 “ or confidence in the commercial transactions of the
 “ country;” and notice has been given of the renewal of
 this motion in the ensuing Session. From such an
 inquiry, properly directed, much good may undoubtedly
 arise. By the defects and inconsistencies which still
 exist in the system upon which our paper circulation
 is managed, as well as by erroneous impressions still
 remaining upon the public mind respecting the nature
 and the extent of the duties which legitimately devolve
 upon the manager of the circulation, the Bank is at times
 liable to be seriously inconvenienced, and the efficiency
 of her measures impaired. An investigation of these
 points might probably lead to some valuable improve-
 ments in our present system, and also tend to correct the
 prejudices and unreasonable expectations still entertained
 by the public. It is, however, essential to the efficiency
 of such an inquiry that it should not be directed to false
 objects.

The present system is not fairly responsible for all
 the evils which are sometimes laid to its charge; neither
 is it within the power of any system upon which the
 monetary affairs of a country can be placed, to realize all
 the sanguine anticipations which some persons entertain.
 So long as human nature remains what it is, and hope
 springs eternal in the human breast, speculations will
 occasionally occur, and bring with them their attendant
 train of alternate periods of excitement and depression.

Those who expect to find, even in the most perfect management of the circulation, the magic power to secure perpetual ease and undisturbed steadiness in commercial affairs, are like the alchymists in search of their mysterious secret; and the discovery, if made, would prove equally useless. Storms and tempests are not more certain and inevitable in the material world, than are the periodical convulsions of commercial affairs; and they both answer similarly useful purposes. In moderating the force of them when they occur, a well-regulated currency must necessarily exert considerable influence. But the principal and most important benefit to be attained by a due regulation of the currency, consists less in the indirect effect which it may have in preventing violent fluctuations in the state of trade or of prices, than in its direct tendency to protect and secure the convertibility of the notes under all possible contingencies. Money, it must be remembered, is not only useful as a medium of exchange in lieu of Barter or Credit, but also as a Measure of Value; and when paper, in itself possessing no intrinsic value, is used as a substitute and representative of the precious metals, the convertibility of that paper becomes essential for preserving its character as a Standard of Value. When the convertibility ceases, there is no longer any fixed limit to the amount which may be issued, nor any means of obtaining in exchange for the notes that of which they purport to be the representative. Gold is in this country the measure of all exchangeable value, the scale to which all money prices are referred. Consequently, when the issuer of the paper

circulation of a country is driven to the necessity of suspending his payments in specie, the determinate measure of value in that country is lost; and there then exists no other standard of prices, than that circulating medium, issued primarily by the Bank of England and in a secondary manner by the Country Banks, the variations of which in relative value may be as indefinite as the possible excess of that circulating medium. If after suspension the paper notes are still used for that purpose, it must be done under a reliance upon the resumption of payments in specie, by which the true character of the notes as a measure of value may be revived. In the meantime, however, the notes must remain subject to unlimited variations in value from excess of issue, "That natural check or control being absent which maintains the value of money, and, by the permanency of the common standard of value, secures the substantial justice and faith of monied contracts and obligations between man and man."—*Bullion Report*, 1810.

The continuance of this state of things beyond the period required by imperious necessity, would be inconsistent with the honour and integrity of a country, and would prove deeply injurious to its interests; whilst the difficulty of restoring the paper currency to its just value will always be found to be of the most formidable character. Of the nature of this difficulty, of the extensive private suffering, of the disturbance in the operations of trade, of the derangement of property, and the unavoidable injustice to extensive classes which necessarily attend this process, we have had recent experience in this

country; and the painful recollection of what we have gone through must surely teach us the importance of adopting such regulations for the management of the circulation, as shall place the convertibility of the notes beyond the reach of danger. It is in this that the importance of all discussions of this nature really consists; and all inquiries upon the subject must terminate unsatisfactorily, which are not directed to this as the principal, if not the exclusive, object of attention. The convertibility of the paper issues can only be maintained by a due regulation of the amount of them; and all systems for the management of the currency must be defective and unsafe, in proportion as they limit the power of controlling the amount of the issues, or subject the party in whom that power is vested to other obligations or influences incompatible with the due discharge of that duty. We have endeavoured to show how far our system is defective in these respects. The more difficult task remains of determining what are the appropriate means for removing those defects. (See Appendix G.)

V. One of the principal points of inquiry to which the committee of 1832 directed their attention was, "Whether the paper circulation of *the metropolis* should be confined to the issues of one bank and that a commercial company; or whether a competition of different banks of issue, each consisting of an unlimited number of partners, should be permitted." The result of that inquiry was a decision in favour of one bank of issue in *the metropolis*, and that a commercial company. Since

that time, however, questions of currency have undergone much discussion, and sound information on the subject is more extensively disseminated. The time indeed is probably arrived when the question might be taken up in a more comprehensive form, and a committee of parliament might advantageously direct its inquiries to the point, "Whether the circulation of *the whole country* " should be confined to one bank of issue, and whether " that bank should be restrained from all other banking or " commercial functions." For the elucidation of this most important question, it would be necessary to inquire how far the power of duly controlling the amount of the issues is interfered with and weakened by the existence of competing issuers; by the obligation of meeting the uncertain and fluctuating demands of Government; and by the duty of supplying the wants of commerce and sustaining public and private credit. The possibility and expediency of separating all other banking functions from the management of the currency would necessarily come under consideration; and also the best means of accomplishing this object, whether by a separation of the departments, leaving them still under the control of the same body; or by placing the management of the issues in the hands of commissioners appointed solely and exclusively for that purpose. Of the beneficial results which would arise from a searching inquiry into these points it seems impossible to entertain a doubt; much valuable information would be elicited, many erroneous impressions still prevalent would be corrected, the public mind would be instructed and gradually prepared for necessary changes, the con-

fidence requisite for carrying out sound principles, would be strengthened and confirmed, and in all probability our monetary system would undergo such improvements as would effectually secure its solidity and solvency under every possible trial. The effectual accomplishment of this result would necessarily, and without any direct attention being given to them, involve the collateral advantages attendant upon a well-regulated currency; the convulsions of commerce and the oscillations of prices would no longer be influenced by irregular and improper fluctuations in the amount of the circulating medium; and to whatever extent they might henceforth occur, they would be the legitimate effect of natural causes, the remedy for which is to be sought only in individual forethought and prudence. Should such be the ultimate result of the ordeal through which we have passed, we shall indeed have turned our misfortunes to good account, and be enabled to look back upon the events of the past year, rejoicing that we have been in trouble.

VI. The instances are but rare in which human wisdom is able so fully to comprehend the nature of existing circumstances, as to foresee the consequences which are involved in them, and by prospective measures to regulate and determine the character of future events. We are in most cases the pupils of experience; and it is an old remark that wisdom is best learned in the school of adversity. Certain it is, that many of our wisest measures have originated, not in the unprompted suggestions of foresight, but in the necessity of applying a remedy to

evils, the nature of which we have learned to understand only by feeling their effects.

The depreciated value of Bank of England notes, the high price of bullion, the deranged state of the exchanges between this and all foreign countries, which occurred during the suspension of cash payments, were practical illustrations of the evils attending an inconvertible paper money. It was impossible altogether to overlook these considerations; although it was not without much difficulty and after repeated discussions, that the importance of them was sufficiently impressed upon the public, and the truth of the principle upon which they depend was admitted; namely, that paper money ought to be regulated in amount by the state of the exchanges, and that, other things remaining the same, its value increases as the quantity diminishes, and diminishes as the quantity increases. The bill of 1819, commonly called Peel's Bill, was resorted to as the remedy for these evils; it was founded upon the principles of the Bullionists, and may be considered as their measure. For the object then in view, the restoration of the currency to its just value by the re-establishment of the ancient metallic standard, it was sufficient.

The next evil attending our system of paper money, and to which again practical experience alone excited sufficient attention, was the danger of insolvency on the part of the issuers. The crash of 1825 was the school of adversity in which wisdom was learned on this point, and the establishment of the Joint-stock Bank system was the remedial measure which emanated from it. It cannot be

said that this arrangement has realised all that was expected from it, but it has no doubt produced a great diminution of the evil against which it was directed.

Since that period stirring events have occurred in monetary affairs, and many characteristics of our system, previously latent, have been brought into prominent notice. The convertibility of the notes, the essential feature of Peel's Bill, has been seriously endangered on more occasions than one. In 1825 we were, according to the highest authority, within a few hours of a state of barter; and omitting all reference to intervening periods, there can be no doubt that within the last year a danger of a similar nature has been incurred.

It is not sufficient merely to ordain, as Peel's Bill did, the convertibility of the notes; it is further necessary to see that effectual means are provided for that end. It is now discovered that there is a liability to excessive issues of paper, even while that paper is convertible at will; and that to preserve the value of a paper circulation, not only must that paper be convertible into metallic money, but the whole of its oscillations must be made to correspond exactly, both in time and amount, with what would be the oscillations of a metallic currency, as indicated by the state of the bullion. Such a system therefore for the management of the circulation must be constructed as shall secure that due and steady regulation of the amount of the issues, through which alone any permanent security for their convertibility can be obtained.

The state of the Bank in the autumn of 1825 and again of 1839; the constant and violent fluctuations which

have characterised the intervening period ; the agitated and dissatisfied state of public feeling which has arisen out of them ; these are the evils which now demand attention and call loudly for a remedy. The difficulties of the case, whatever they may be, will not be lessened by any attempt to evade them. "It is to be hoped that no fallacious reasoning will be listened to ; that we shall at last open our eyes to the dangers that beset us—that we shall examine coolly, and decide manfully."

Phenomena like those we have alluded to, do not occur without some cause ; and it does not seem reasonable to assign any less cause than some serious defects in the system upon which the management of the circulation is established. These defects, instructed as we now are by experience, it is not difficult to discover. Competition in issues is inconsistent with the steady regulation of their amount ; whilst banking business combined with that of issue is the union of incompatible functions. The former deprives the manager of the circulation of the necessary power, whilst the latter subjects him to improper and dangerous influences. These propositions, we think it is not too bold to assert, rest upon the combined evidence of general reasoning and practical experience.

To what results then do these views lead ? and what are the remedial measures which can be resorted to ? The management of the circulation being in the hands of the Bank of England, a due regard to the claims of an existing institution, to the policy of carrying change beyond that which the necessity of the case requires, and to the inconvenience of disturbing the established habits of the

country, render it inexpedient to interfere with that arrangement; unless the separation of the two departments by the Bank itself, or an approach to it, be altogether impracticable. Upon this subject the Directors of that establishment can alone speak; it rests with them to explain what are the difficulties in the way of this arrangement, their nature, their extent, and the possibility or otherwise of overcoming them.

One difficulty will probably be anticipated as likely to arise from the diminished power which the Bank under this arrangement will possess of relieving commercial pressure and extending support to public credit. This evil, however, will probably prove to be much less than many persons apprehend. We have already observed that by the repeal of the Usury Laws a more legitimate as well as a more certain and more abundant source of relief has been opened to the trading world.

We may further observe that the banking resources of the Bank will remain unimpaired and unfettered; and the only respect in which the Bank will be restricted, by the separation of the currency from the banking department, will be in the exercise of her improper and dangerous power of creating money beyond the amount which ought to exist.

Whatever consequences arise from this cause ought to be cheerfully acquiesced in by an intelligent community; it is childish ignorance only which complains of the restraints laid upon it for its own security. We must not be inconsistent in our expectations. It is the universal law of human affairs that every good must be purchased

at its appointed price ; and no country can expect to enjoy the durable advantages of a currency regulated by a fixed metallic standard, without submitting to the occasional inconveniences and pressure which are the indispensable means for accomplishing that end.

A more serious difficulty will arise from the multiplicity of issuers over whom the Bank possesses a very insufficient control. To subject the Bank to the strict application of principles, from which these parties are left altogether exempt, would certainly be a very inconvenient course. The efficacy of the measure would be materially impaired, and possibly under such circumstances the perfect safety of it might be open to question. Whilst the present system of multiplied issuers is permitted to continue, we must always be exposed to the possibility of a sudden contraction by the country issuers, either voluntary on their part, or rendered unavoidable by their insolvency or by the withdrawal of public confidence. The void thus created must be filled up by the central issuer ; and unless, under such circumstances, he is permitted to increase his issues without a previous influx of bullion, much public inconvenience might arise. Such an extra issue of Bank of England notes to fill the chasm created by the discredit of country paper became absolutely necessary in 1825 ; and to the possibility of the recurrence of some similar emergency we must be exposed, so long as a multiplicity of issues by private individuals constitute an important portion of our circulation. The force of this consideration cannot be denied. The power of overcoming the difficulty depends, in a

great degree, upon the extent to which any measure for that purpose would receive the concurrence of the parties immediately interested, and be supported by that degree of public sanction, without which no measure on such a subject could be prudently attempted. It is one of those cases in which true wisdom consists in watching the propitious moment; ready to avail ourselves of it when it occurs, and prepared to act in concert with the public will, without attempting to force it. Repeated discussion, constantly pressed on the public attention, is the legitimate means to dissipate remaining prejudices, and to secure the progress of truth. By "much arguing much writing, and many opinions," we may hope that the public judgment will be gradually ripened, and prepared for those salutary changes, which will be found easy of execution in proportion as they are sanctioned and supported by general approval. We often create impossibilities by fearing them; and probably in the present case, the difficulty of substituting one national currency for the mass of rival issues which are now scattered over the kingdom, would be found to exist more in apprehension than in reality.* The object is not without its importance or its value; the re-establishment of our metallic standard

* On a former occasion the writer expressed himself with some hesitation upon this point; the suggestion of separating the management of the circulation from banking business has since that time attracted a considerable degree of public attention; and the general favour with which it has been received, indeed the decided approval of it which has been expressed in many quarters, encourage him to believe that the difficulties, which depend almost entirely upon opinion, would be less than he then ventured to anticipate.

has been purchased by this country at no trifling price; an effectual security for the maintenance of that standard under all contingencies cannot be obtained without some sacrifice of private interest on the altar of public good.

VII. If, in the course of these remarks, we have incidentally expressed ourselves in terms which imply a neglect of duty on the part of the Bank, it is our anxious wish not to be misunderstood on this point. We censure not the administration of the Bank; our objections are directed rather against the erroneous principles on which the Bank in its compound character is at present constructed; we quarrel not with her particular acts, and allude to them only, as illustrating the nature and tendencies of the institution from which those acts emanate of necessity. The Legislature has created the Bank feeble and imperfect in her constitution; and, at the same time, has placed her in the midst of difficulty and temptation. It has exposed her to solicitations which it is not in her nature to reject, and has imposed upon her duties of the highest responsibility, without giving her strength and power adequate for the discharge of them. These considerations are a sufficient answer to the charge of wilful and culpable negligence sometimes urged against her.

An undue regard for her own pecuniary interests is deemed by others to be the true cause of all her misdoings. We must not forget, however, that the union of a proper attention to the interest of her proprietors with the discharge of public duties, not at all times in perfect harmony with those private interests, is the condition of

her existence. For this the Bank is not responsible, but those who have made the Bank what it is. Her conduct, in the attempt to reconcile public duty with private obligation, ought to be judged with reference to the conflicting difficulties of the position in which she is placed; and when fair and candid allowance is made for this consideration, we think the verdict on this count at least, cannot go against her. If her circulation and securities are usually kept too high during the efflux of bullion, it must not be forgotten that they are always in course of reduction when the return of treasure would appear to justify an increase of them. These facts are irreconcilable with the supposition of the Bank having surrendered herself to the exclusive influence of self-regarding views; but they become perfectly intelligible, if we refer them to the ill-assorted union, which the Legislature has established, between the power of creating money and the business of distributing it through banking operations—

“rudis indigestaque moles

“Non bene junctarum discordia semina rerum.”

The infirmity of purpose and occasional departure from principle which we impute to the Bank, are the necessary consequence of this discordant intermixture of jarring elements; it is unreasonable to complain of individual instances of mismanagement, when our attention should be directed to that which is the original cause of all the confusion.

A Repeal of the Union is essential to good government in monetary affairs. The common Crown may still

rest upon the brows of the Sovereign of Threadneedle-street; and She may be permitted to wield one Sceptre of authority over her separated departments. But she must consent to hold a Committee of Treasury in the Bullion-Office as well as in the Discount-Parlour; and must govern them through the instrumentality of a distinct system of laws, appropriate to each, and in harmony with their respective purposes; the interest and well-being of the one must no longer be interfered with or endangered by influences or affections connected with the other. By this timely adaptation of an ancient institution to the necessities of a more enlightened age, the recurrence of past grievances may be prevented; the present agitation may be allayed; and a reform be effected, which shall be safe, because it is temperate and gradual. Whilst, on the other hand, by an unbending resistance to all reasonable propositions for improvement, even the Limited Monarchy under which our circulation has hitherto been managed may be endangered, and all be lost in the ungovernable Democracy of rival issues.

It must be admitted, however, that such a change, in the system upon which the circulation of the country is managed, cannot be considered as one of those ordinary measures of administration, the free agency with respect to which ought to rest entirely with the Directors of the Bank. Consequences of the utmost importance to the public interest are involved in the question; and the decision, whatever it may be, ought to be taken under the sanction and authority of the Legislature. Parliament, if any thing effectual is to be done, must express

its will on the subject ; and there is no reasonable ground to doubt either the competency or the readiness of the Bank to give effect to that expression. The sentiments on this point expressed by the Committee of 1810 are at least equally applicable to the present occasion. “ To
“ the discretion, experience, and integrity of the Direc-
“ tors of the Bank, your Committee believe that Parlia-
“ ment may safely intrust the charge of effecting that
“ which Parliament may in its wisdom determine upon
“ as necessary to be effected ; and that the Directors of
“ that great institution, far from making themselves a
“ party with those who have a temporary interest in
“ spreading alarm, will take a much longer view of the
“ permanent interests of the Bank, as indissolubly blended
“ with those of the public.” The Directors of the present day, not inferior to their predecessors in point of integrity, have the advantage to be derived from the additional experience of thirty years, full of instructive events, and characterised by a great advance in the general intelligence upon subjects of currency. These advantages have not remained unimproved by them ; and if their measures are still the subject of criticism, we must remember that it is because we are trying them, not by a comparison with the measures of any former period, but with that standard of abstract perfection, which, if unattainable, is still approachable ; and towards which, therefore, as the prize of their high calling, the managers of the circulation ought always to be pressing forward.

APPENDIX.

(A.)

“ It becomes a curious matter of speculation to inquire, how, with
“ motives so strong to constant and progressive excess, and under
“ the guidance of maxims and principles so unsound and of such
“ apparently mischievous tendency as those professed by the Governor and some of the Directors of the Bank in 1810, such moderation
“ and (with some exceptions which will be noticed hereafter) such
“ regularity of issue should, under chances and changes in politics
“ and trade, unprecedented in violence and extent, have been preserved, as that a spontaneous re-adjustment between the value of
“ gold and the paper should have taken place, as it did without any
“ reduction of their circulation.

“ The explanation of the difficulty seems to be this. The rule by
“ which the Bank Directors professed to be, and were in the main,
“ guided, viz., the demand for discount of good mercantile bills, not
“ exceeding sixty-one days' date, at the rate of five per cent. per
“ annum, did, with the necessary policy of Government in periodically reducing the floating debt within certain limits by funding,
“ operate as a principle of limitation upon the total issues of the
“ Bank. And the reason of the rule having so operated, is to be
“ found in the fact, that the market rate of interest for bills of the

“description which were alone discountable at the Bank, did not
 “materially, or for any length of time together, exceed the rate of
 “five per cent. per annum. But the Bank Directors seem to have
 “been unaware of the precise mode of operation by which their rule
 “had the effect of a principle of limitation against great or per-
 “manent excess in their circulation.”—*Tooke's History of Prices*
 vol. i. p. 168

(B.) p 101

“The vicious part of our currency is, that it is not supplied by
 “one but by hundreds of issuers all actuated by conflicting views
 “and interests. A paper currency should, if issued on right prin-
 “ciples, always correspond with the standard, that is, it should vary
 “in amount and value precisely as a gold currency would do, were
 “the notes withdrawn and coin substituted in their stead. Now, to
 “insure this identity between paper and gold, and to avoid those
 “fluctuations in the supply and value of money that are so very
 “injurious, it is indispensable that the issue of notes should be
 “regulated by the influx and efflux of bullion. But with the single
 “exception of the Bank of England, there is hardly another esta-
 “blishment for the issue of notes in the empire whose proceedings
 “are at all regulated by a regard to the exchange. The Joint-Stock
 “Banks and the private Banks of England and Wales are wholly
 “governed by their own separate estimates of what is most for
 “their own interests. Variations of the exchange affect them only
 “indirectly and remotely; and in regulating their issues they look
 “only to the state of prices and credit among their customers. They
 “cannot indeed be expected to act otherwise. Suppose that owing
 “to any circumstances the currency becomes redundant, and that
 “the Bank of England is in consequence obliged to contract her
 “issues. In such a case the country bankers may, and some of them,
 “no doubt, do see that they also ought to contract; but being a

“ very numerous body, comprising several hundred establishments
 “ scattered over all parts of the country, each is impressed with the
 “ well-founded conviction that all that he could do in the way of
 “ contraction would be next to imperceptible, and no one ever
 “ thinks of attempting it so long as he is satisfied of the stability of
 “ those with whom he deals. On the contrary, every banker knows,
 “ were he to withdraw a portion of his issues, that some of his com-
 “ petitioners would most likely embrace the opportunity of filling up
 “ the vacuum so created—and that consequently he should lose a
 “ portion of his business, without in any degree lessening the amount
 “ of paper afloat. Hence in nineteen out of twenty cases the country
 “ banks go on increasing their aggregate issues long after the
 “ exchange has been notoriously against the country; and when at
 “ last they are compelled because of the altered state of things in
 “ the metropolis to pull up, the chances are ten to one that the con-
 “ traction is carried to an improper extent.”—*M’Culloch’s Notes on*
Adam Smith.—Money.

(C.)

116

Plans for an improved system of currency are frequently laid
 before the public, which rest entirely upon this fallacy. The exclusive
 object of these systems is, to obtain for the paper currency to be
 issued under them a greater degree of security, than that which is
 supposed to attach at present to the notes of the Bank of England.
 This end the authors of these schemes generally propose to accom-
 plish by contrivances which they deem to be extremely ingenious,
 but which always resolve themselves into the simple plan of making
 property of some kind or other the basis of the circulation. Some-
 times the plan suggested proposes to issue a paper currency against
 the security of land, sometimes against the security of the public
 debt, and sometimes against merchandize in the docks; but having
 provided for the security of the notes, the plan generally terminates

at this point; the projector apparently conceiving that he has satisfied all the desiderata of a good paper currency, although he has introduced no specific measure for regulating the amount of that currency and maintaining its value relatively to the currencies of the other countries of the world.

To all reasonable persons the security of the Bank of England paper must, we think, be sufficiently satisfactory. It is perfectly safe so long as the Government of the country remains solvent. Upon the supposition of national insolvency no currency whatever, except a purely metallic one, will maintain its value or efficiency. For the further purpose of duly regulating its amount and maintaining its value relatively to the other currencies of the world, the Bank of England contains the best possible provision, in the constant convertibility of its notes into gold. Its excellence in these respects is best proved by contrasting it with all the rival schemes which have been proposed. Indeed all that seems requisite for rendering it perfectly satisfactory and efficient is to cleanse it from the impurities which attach to it—to separate it from all connection with ordinary banking functions, and to release it from the interference which arises from the competition of other issuers. The circulation of the Bank of England, when thus protected from all improper influences, and made the exclusive circulation for the whole kingdom, will approach as nearly as possible “the most perfect state to which a currency can be brought; that by which the public are secured against any variations in the value of the currency, other than those to which the standard is subject, and “in which the circulation is carried on by the least expensive means.”—*See Mr. Ricardo's Evidence before the Secret Committee of the House of Commons, 1819, p. 135.*

(D.)

A great difference of opinion appears to exist, amongst those whose judgment is entitled to the greatest weight upon such sub-

jects respecting the extent to which the prices of all articles, and consequently the general state of trade, are affected by variations in the amount of the circulation. The principal object of Mr. Tooke in his elaborate and most interesting History of Prices, is to establish the doctrine "that there is not any single commodity in the whole range of articles embraced in the most extensive list of prices, the variations of which do not distinctly admit of being accounted for by circumstances peculiar to it, in the relation of supply, actual or contingent, real or apprehended, to the ordinary rate of consumption," without reference to the effects of variations in the amount of the circulation. With this view the History of Prices and the state of the circulation from 1793 down to 1837 are minutely traced and contrasted with each other; and the conclusions at which the author arrives are stated in these words; "That according to the historical view which has been presented, there is every reason to infer that there was no such variation of the quantity of money, arising out of the manner in which the Bank issues were regulated, during and subsequent to the restriction, as to justify the inference of its having been an operative cause of the great variation of prices. The whole tenor of the facts and reasonings adduced has been to establish the conclusion, that the great alterations of price originated, and mainly proceeded, from alterations in circumstances distinctly affecting the commodities; and not in the quantity of money, in relation to its functions, or in comparison with what, upon fair grounds of presumption, it might be supposed that it would have been, if there had been no restriction but at the same time no pressure upon the exchanges by extraordinary foreign payments." And again, "It must be admitted that the hypothesis which ascribes to variations in the productiveness of the mines more than its due importance, is not chargeable with the inconsistencies, and the utter untenableness in argument of either the theory of war-demand, or the more generally prevalent doctrine of the paramount influence of alterations in the system of our currency."

With these contrast the following remarks by Mr. McCulloch in his admirable notes to his edition of "The Wealth of Nations:" "Nothing tends so much to generate a spirit of over-trading and to occasion commercial revulsions, as sudden changes in the

“amount and value of money. Those who embark most readily and eagerly in time bargains and other speculative adventures are not, generally speaking, of the class of rich and old established merchants. They consist principally of those who have but recently entered into business, and who are tempted by the chance of speedily making a fortune, to engage in such hazardous transactions. And while any unusual facilities in the obtaining of discount act as powerful incentives to such persons to speculate, it is at the same time obvious, that the rise of prices consequent to an increase of the currency, will not only lead them to believe that their anticipations are being realised, but will, most probably, make even the most considerable merchants withhold their produce from the market, in the expectation of a further advance. The miscalculations of particular classes merely affect themselves, or, at most, exert only a slight influence over the rest of the community; but a revulsion occasioned by a sudden change in the amount and value of money affects every individual, and is always productive of the most extensively pernicious results.”

We may further add as illustrative of this branch of the subject a passage extracted from Mr. Tooke's “Considerations on the State of the Currency,” 1826, p. 63. “Fluctuations, to a greater or less extent, are inseparable from the course of commercial affairs. The business of production, or supply, proceeds wholly on anticipation; it is dependent on the seasons, and on an endless variety of casualties; while consumption, or demand, may be influenced by changes of habit, fashion, legislative enactments, and by political events. The contingencies which may excite a spirit of speculation and enterprize on the one hand, and disappoint expectation and defeat calculation on the other, are therefore almost innumerable. But assuredly that is a most vicious system of currency, which instead of mitigating, aggravates the evils that attend all violent fluctuations. Such, however, has been the system of our currency. We have seen that precisely at the time at which there ought to have been a contraction, there was an extension of the Bank of England issues, increasing, both directly and indirectly, the mass of the circulation, and promoting the extravagant speculations which have so distinguished the period under consideration.”

(E.)

The peculiar and sensitive nature of credit, and the almost surprising manner in which any interruption to the regular discharge of engagements in one place is felt in its effects upon the monetary condition of other places, remote in point of distance, and apparently beyond the reach of such influences, is a phenomenon not altogether peculiar to modern times. It is alluded to in a remarkable passage of the speech of Cicero pro Lege Maniliâ: "Cum in Asia res magnas multi amiserant; scimus, Romæ, solutione impedita, fidem concidisse. Non enim possunt *una in civitate* multi rem atque fortunas amittere, ut non plures secum in eandem calamitatem trahent. A quo periculo prohibete rem publicam, et mihi credite (id quod ipsi videtis) hæc fides et hæc ratio pecuniarum, quæ Romæ, quæ in foro versatur, implicita est cum illis pecuniis Asiaticis et cohæret. Ruere illa non possunt, ut hæc non eodem labefactata motu concidant." The activity of intercourse and the mutual inter-dependence of interest which navigation and commerce have created in modern times, tend to render all nations, at least all trading communities, members of one commercial commonwealth. Whatever concerns the prosperity of one country is felt in its effects by the others, and all have a common interest in the due regulation and the prosperous progress of the affairs of their neighbours. The nervous system of the human frame is not more delicate and sensitive through all its ramifications, to an injury inflicted upon any one part, than is that mysterious net-work commercial credit, by which the nations of the world are bound together in one common interest, and the effects of monetary calamities, whatever may be the country upon which they first fall, are speedily diffused over all. May this truth sink deeply into the hearts of nations! and lead them to view the *false glories* of war in their true relation to the *substantial fruits* of peace. Mutual interests are the true basis of mutual amity; and by explaining to mankind the complex relations which arise out of these interests, and thus developing the principles of affinity which exist among nations instead of those of repulsion, Political Economy will prove

herself to be the best teacher of national morality and the most effectual inculcator of the doctrines of peace. She has clearly demonstrated that no country, and least of all any commercial country, can suspend its friendly relations with another, without inflicting upon itself the deepest injury; the first blow struck against its enemy vibrates through its own frame, and it can only reach the satisfaction of injuring another, through punishment, more certain and probably equal in its severity, inflicted upon itself. May we not hope that the day is not far distant, when the conviction of common interests shall lead nations as well as individuals to live in common brotherhood? And when the hostile collision of man with man, individually or collectively, shall be regarded as the discreditable evidence of incomplete civilization? The signs are already visible in the horizon, though perhaps at present like "a cloud no bigger than a man's hand;" and it may be the happy inheritance of our descendants to live in times when the public conduct of nations, as well as the private acts of the individuals which constitute them, shall emanate from nobler impulses, and conform to a more elevated standard. "They shall beat their swords into ploughshares and their spears into pruning-hooks! nation shall not lift up sword against nation, neither shall they learn war any more."

If these be the dreams of Utopia, who would not wish to become a citizen of the happy republic

(F.)

The distinguished reputation of Mr. Webster, as one of the most talented and enlightened members of the American Senate, has become better known to the people of this country in consequence of the visit with which he has recently honoured it. His views upon questions of currency, now become more important perhaps in the United States than they are even in this country, must be interesting and instructive to all who give their attention to the

subject. The following passage is extracted from the second speech of Mr. Webster on the sub-Treasury Bill, delivered on the 12th of March, 1838 :—

“ Before leaving altogether this subject, I will say a few words upon the proper guards and securities for a paper circulation. I hold it to be of the utmost importance to prove, if it can be proved to the satisfaction of the country, that a convertible paper currency may be so guarded as to be secure against probable dangers. I say, sir, a convertible paper currency, for I lay it down as an unquestionable truth that no paper can be made equal and kept equal to gold and silver, but such as is convertible into gold and silver on demand. But I have gone further, and still go further than this, and I contend that even convertibility, though itself indispensable, is not a certain and unfailing ground of reliance. There is a liability to excessive issues of paper, even while paper is convertible at will. Of this there can be no doubt. Where then, shall a regulator be found? What principle of prevention may we rely on?

“ Now I think, sir, it is too common with banks, in judging of their condition, to set off all their liabilities against all their resources. They look to the quantity of specie in their vaults, and to the notes and bills becoming payable, as means or assets; and with these they expect to be able to meet their returning notes, and to answer the claims of depositors. So far as the bank is to be regarded as a mere bank of discount, all this is very well; but banks of circulation exercise another function. By the very act of issuing their own paper they affect the amount of currency. In England the Bank of England, and in the United States all the banks, expand or contract the amount of circulation, of course, as they increase or curtail the general amount of their own paper. And this renders it necessary that they should be regulated and controlled. The question is, by what rule? To this I answer, by subjecting all banks to the rule which the most discreet of them always follow—by compelling them to maintain a certain fixed proportion between specie and circulation, without regarding deposits on one hand or notes payable on the other.

“ There will always occur occasional fluctuations in trade, and a demand for specie by one country on another will arise. It is

“too much the practice, when such occurrences take place and specie is leaving the country, for banks to issue more paper, in order to prevent a scarcity of money. But exactly the opposite course should be adopted. A demand for specie to go abroad should be regarded as conclusive evidence of the necessity of contracting circulation. If, indeed, in such cases it could be certainly known that the demand would be of short duration, the temporary pressure might be relieved by an issue of paper to fill the place of departing specie. But this never can be known. There is no safety, therefore, but in meeting the case at the moment, and in conforming to the infallible index of the exchanges. Circulating paper is thus kept always nearer to the character, and to the circumstances of that of which it is designed to be the representative—the metallic money. This subject might be pursued, I think, and clearly illustrated; but, for the present, I only express my belief that, with experience before us and with the lights which recent discussions, both in Europe and America, hold out, a national bank might be established, with more regard to its function of regulating currency than to its function of discount, on principles, and subject to regulations such as should render its operations extremely useful.”

The intrinsic soundness of these views, as well as the forcible clearness with which they are stated, must command attention. The individual from whose lips they fell has returned to his native country to witness, upon his first arrival, the consequences which have ensued from the rejection of his wise counsel—the suspension of specie payments,—the violent derangement of internal exchanges—the utter prostration of credit—and a ruinous interruption to the trading and commercial operations of the Union. In again urging upon his fellow-countrymen those measures by the timely adoption of which they might probably have averted the present crisis and may still protect themselves against its future recurrence, he will be strengthened by the impressive example of what has recently occurred.

As being our brethren in blood and in language, and still more as having staked even more deeply than ourselves, all their hopes of internal happiness and national prosperity upon the efficacy of free institutions, the American people must always command our warm-

est sympathies ; as rivals in commercial activity and as connected with this country by mutual ties of the strongest interest, their prosperity must ever exert a powerful influence upon our welfare. The shock to which they have been exposed has been felt in its vibrations throughout the United Kingdom ; and a regard for the prosperity of our own country, in concert with more generous sympathies, must create an anxious desire to see the monetary affairs of the United States established upon a sound and durable basis. To the measures necessary for this purpose, many national prejudices and possibly some party hostility may be opposed ; " Nations are slow and reluctant learners ;" but the views of Mr. Webster, as above quoted, by the force of their own truth, and the vigorous exposition which he is capable of applying to them, must gradually impress themselves upon the conviction of a reflecting community. May this result be speedily brought about. The inter-commercial interests of both countries are involved in it. To the wise and the enlightened of his own country he must look for effectual co-operation ; whilst, from this side of the Atlantic, we can only offer to him our cordial sympathy and good wishes for success in his endeavours to obtain the establishment of " a National Bank, instituted with more regard to its function of regulating currency than to its function of discount,"—" a Bank able to restrain the excessive issues of State Banks, and able also to furnish for the country " a currency of universal credit and of uniform value."

(G.)

" We have seen that neither the range of general prices, the rate of interest, the relative amount of currency at different times, nor that of deposits, afford any fixed or certain rules for the guidance of the issuers of paper-money, and that such are to be sought for in the state of the exchanges alone. What, then, is to be thought of our present system, wherein one mass of issuers, the joint-stock banks and country bankers, look almost exclusively to these

“fallacious criteria: while the Bank of England, which alone even pretends to adhere to correct principles, is thwarted by the injudicious conduct of its associates, and frequently embarrassed by the difficulties of its own position in the twofold capacity of money-issuer and agent for ordinary banking business! No correct notions can ever be formed upon the subject of currency, unless the business of issue be clearly separated in the reader's mind from the other transactions which form the real and legitimate employments of the banker. They are, in fact, not merely distinguishable, but dissimilar, and, perhaps, irreconcilable. The rule of utility would place the former exclusively in the hands of the Government, to be exercised by it directly, or through the medium of some delegated body as peculiar circumstances might render most convenient while the latter would be left perfectly free.”—*Norman on Currency and Banks*, p. 33.

THE END.

A LETTER

TO

J. B. SMITH, ESQ.

PRESIDENT

OF THE

(Eng.)
MANCHESTER CHAMBER OF COMMERCE.

L O N D O N :

1840.

A LETTER,

ETC. ETC.

SIR, .

I HAVE just perused with great interest the document which has recently been laid before the Chamber of Commerce of Manchester, and which bears your signature. The subject to which it refers is calculated to command the attention of all persons, who feel themselves to be connected, directly or indirectly, with the prosperity of the trading and commercial interests of the country; and what inhabitant of the United Kingdom, it may be justly asked, is not included in this description? You, and those with whom you act, are too deeply interested in the steady and regular progress of commercial affairs, to have any other object in view, in the inquiry upon which you have embarked, than the establishment of truth; and I am sure that it is not in the character of the merchants of Manchester, to seek that object by any other means than free and unrestrained discussion. The attempt to point out any errors, into which they may unconsciously fall, from whatever quarter it may come, will not be received by them in an unfriendly spirit. In the congress of

M

opinions, the bustling highway of intelligence, each man should ask of his neighbour, and yield to him again concession.

The management of the circulation, the causes of the errors which are committed respecting it, and the effect which they produce upon the general interests of the country, are topics, which, till recently, have not, as you justly remark, attracted the attention which they deserve. In the first outbreak of public and general discussion on the subject, it is natural that many conflicting views should be propounded; and probably none of the disputants who first enter the arena, will wield his weapons with that perfect skill, which shall expose no weak part, and leave no opening to hostile attack. Let the subject, however, be approached in the spirit of free and candid inquiry on all doubtful points, and of charitable interpretation of every difference of opinion, (*in dubiis libertas, in omnibus caritas*;) and we may be well assured, that in the ordeal of rival inquiry, thus pursued, truth will be finally purified from error. Under the influence of this spirit, and in the earnest hope that this end may be speedily accomplished, the following few remarks have been penned. In the same spirit I am sure they will be received by you, and by that active, intelligent, and truth-seeking community to which, through you, they are addressed. Truly indeed may we say, that we speak unto wise men, and call upon them to judge what we state.

The Report of the Manchester Chamber of Commerce is a general indictment against the Bank of England,

charging it with being the sole and exclusive cause of the pressure which has recently fallen upon the trading and manufacturing interests of the country.

Such charges ought not to be lightly thrown out in any case; and in proportion as they are made with deliberation, and by a body whose peculiar character and functions give unusual weight to whatever emanates from it, they ought to be stated guardedly, and not pressed beyond that extent which the evidence adduced in their support fully warrants.

It is not an uncommon error into which parties under the influence of imperfect views, and not sufficiently cautious in their judgment, are liable to fall, viz., that of fixing their attention upon one particular view of a question, to the exclusion of others which equally affect it; and they are thus led to attribute any given effect to one cause alone, which is in reality the result of the combined action of a multiplicity of concurring circumstances.

The Report in question presents a striking example of this process. The line of argument which it pursues consists of three main propositions:—

1. That the alternations of excitement and depression in trade since 1835, and especially the events of this character which have occurred during the years 1838 and 1839, are to be attributed entirely to mismanagement of the circulation.

2. That this mismanagement of the circulation is altogether the result of the improper measures of the Bank of England.

3. That the cause of this misconduct of the Bank of

England is to be found in the undue privileges possessed by the Bank; in the want of available capital on the part of the Bank, which renders it impossible for it to conduct its affairs with advantage to the interests of the manufacturing and commercial community: and in the fact, that the power over the currency is vested in twenty-six irresponsible individuals, for the exclusive benefit of a body of Bank Proprietors.

In pursuing the investigation of any subject, with the view of devising measures for preventing the recurrence of evils which have been actually experienced, it is most important that the cause or causes of those evils should be traced, not in a general way only, but with that degree of accuracy which may enable us to attribute to each concurring circumstance, its true character as an efficient agent, and the relative degree of influence which it exerts in producing the general result. Unless this be done, the conclusions will partake of the same vague generality, which belongs to the investigations by which they have been obtained; and the remedies will be defective or insufficient, in proportion as the causes have been imperfectly ascertained, or their relative influence inaccurately measured.

It is necessary to press this consideration upon the attention of those who peruse the Report which we are discussing. The phenomenon therein examined, the fluctuations of prices and the alternations of commercial affairs, is not attributable to any one cause exclusively: it is the result of many concurring causes, dependent each upon different principles, which ought all to be carefully analysed, and afterwards weighed against each other.

It is only when this has been done, that we can venture to hope that we have arrived at a true knowledge of the subject, and are prepared to form a safe judgment as to the remedial measures which it is desirable to adopt.

The propositions to which I have already alluded, as containing the substance of the Report, are all of them open to many observations. By not a few persons they would each of them be met by a positive denial; and the proof of them against an adverse reasoner would certainly be no very easy task.

I am not, however, disposed to go to this extent. I think there is some truth contained in them; but that, partly by the omission of the qualifications with which that truth ought to be accompanied, and partly by the omission of other truths, equally affecting the question, the whole result is very far from presenting a just and complete view of the subject.

“Wisdom and skill is requisite to know what parts are sound and what corrupted. Neither is it to all men apparent which complain of unsound parts, with what kind of unsoundness every such part is possessed. They can say that there are very foul and gross corruptions; the nature whereof, notwithstanding, because they have not for the most part exact skill and knowledge to discern, they think that amiss many times which is not; and the salve of reformation they mightily call for, but where and what the sores are which need it, as they wot full little, so they think it not greatly material to search.” In these words, the great Hooker rebuked the spirit of indiscri-

minate and unsparing censure against the Church of Rome which prevailed in his day; a spirit which, stopping not to distinguish between the pure faith and the Apostolic practices still retained by that Church, and the abuses which were mingled with them, would have gone far to destroy the Religion, instead of limiting itself to the reformation of its corruptions. May not the admonition which they contain be justly applied to the question before us? for the satisfactory solution of which, a little more of wisdom and skill is requisite, to know what parts are sound and what corrupted, and where and what the sores are which need that salve of reformation so mightily called for in your Report. Indeed, in reading this document, I seemed to be walking over a tessellated pavement, curiously diversified with alternate truth and error; I find facts correctly stated, but insufficient to support the sweeping conclusions founded on them; other facts altogether omitted, and therefore a dark space where there ought to have been a light one; mismanagement sometimes imputed, where it has not really existed; and where it has, the responsibility affixed to one party, which ought to be divided amongst many; that mismanagement, again, attributed to those which are not the real causes of it, and made answerable for evils which are not its real consequences.

“ Verily, there is nothing so true, that the damps of error have
not warped it ;

“ Verily, there is nothing so false, that a sparkle of truth is
not in it.”

I will explain myself by a few remarks upon each of the three propositions. In doing this, my object is merely to point attention to those considerations which are omitted in the Report, and by the omission of which I think the sincere inquirer after truth is liable to be diverted from the right road. I do not pretend to examine and discuss each of these points: neither my own time, nor the attention of my readers, would suffice for so vast a task. I attempt only to allude to a few out of many important considerations; the investigation of each or all of which may be followed up by those who are so disposed.

1. Fluctuations in the amount of the currency are seldom, if ever, the original and exciting cause of fluctuations in prices and in the state of trade. The buoyant and sanguine character of the human mind; miscalculations as to the relative extent of supply and demand; fluctuations of the seasons; changes of taste and fashion; legislative enactments and political events; excitement or depression in the condition of other countries connected with us by active trading intercourse; an endless variety of casualties acting upon those sympathies by which masses of men are often urged into a state of excitement or depression;—these, all or some of them, are generally the original exciting causes of those variations in the state of trade to which the Report refers. The management of the currency is a subordinate agent; it seldom originates, but it may, and often does, exert a considerable influence in restraining or augmenting the violence of commercial oscillations.

What, then, were the originating causes of the recent commercial pressure?

The succession of two bad harvests, in a country afflicted with laws which render such an occurrence peculiarly oppressive to the community, and by a peculiar felicity in mischief, contrive to make monetary derangement, and consequently commercial pressure, the inevitable accompaniment of the misfortune of the seasons. The poison of impolicy is thus thrown into the fiendish cauldron of injustice,

For a charm of powerful trouble
Like a hell-broth to boil and bubble.

Add to this the collapsed state of American credit, the unavoidable consequence of the previous extravagant excitement.

Fluctuations of the seasons; legislative enactments in the form of Corn-Laws; temporary depression in other countries between whom and ourselves there habitually exists an active trading intercourse; are causes which, in any discussion of the trading events of the last two years, cannot be thrown into the back-ground.

To what extent, however, has mismanagement of the circulation aggravated the effects of these causes? is the next question.

What is the test of mismanagement of the circulation? I presume the answer will not be disputed. Fluctuations of the amount of paper issues not corresponding to those of the bullion.

Tried by this test, and I know of no other which admits of clear definition or of strict application, the mea-

asures of the Bank during the year 1838 are clear from blame. The relative condition of the circulation, and the bullion at the beginning and at the end of 1838 is the same.

During the year 1839, it is true, the circulation has not been contracted in correspondence with the bullion; and here, therefore, is a just opening for censure. But that censure must not be vague and indefinite. The non-reduction of the circulation of the Bank in 1839 cannot be made a cause of any evils whose origin is of an earlier date. The profit upon the export of gold, I believe it will be found, did not arise till the latter end of 1838; and therefore the obligation upon the Bank to contract its issues dates from that period. The rate at which the Bank may lend money is a fallacious criterion by which to test its measures; the amount of its issues compared with the bullion is the only true criterion; and, unless the rate at which the Bank advances its money is such as to lead to an improper increase in the amount of its issues, it seems difficult to condemn it as violating any acknowledged principle.

2. But if the management of the circulation has been vicious during 1838 and 1839, who, we must inquire, has been the principal sinner? Look at the returns of the country issuers? you will there observe a progressive and large increase of issues through the whole period: an increase steadily maintained against decreasing bullion, and un sanctioned by any corresponding increase on the part of the Bank of England.

The Report we are discussing, I must presume, will be followed by another upon this branch of the question ;

pointing out the effects upon the commercial and manufacturing interests of the country of multiplied country issues, not corresponding in their fluctuations either with those of the bullion or of the Bank of England circulation, issued too 'by irresponsible individuals' and for 'the exclusive benefit of their own concerns.'

Before we attribute any great trading convulsion entirely to mismanagement of the circulation; it is necessary to show distinctly that, in the case in question, those which are the ordinary and natural causes of such convulsions have not been in operation.

And, again, before we attribute the evils, really attending mismanagement of the circulation, exclusively to the Bank of England; it is necessary to prove, either that the other issuers are completely under the control of the Bank, or that their measures have not proceeded in the same erroneous course.

The Report does not attempt to establish these facts; and I therefore think it justly open to the charge of presenting a partial view of the subject; and of omitting many considerations, without an attention to which, the discussion must be imperfect, and the decision to which it leads unsatisfactory and unjust.

Be severe; but let your severity be tempered with a proportionate regard to justice. Condemn misconduct; but do it with discrimination. Trace every evil with unsparing research to its origin; but be sure that you reach the true source of it. Analyse the impure result by the severest test; but take care that you do not attribute to one cause alone, those effects which really

indicate the presence of many deleterious principles. The phenomenon under your consideration is not a simple one, neither is the cause of it. Mismanagement of the circulation is not the primary source, it is only the contributory stream; and the foul water, which it pours forth, flows from more than one polluted spring.

You state that, in the course of 1835, the Bank of England, by 'throwing a large amount of money into the market at a low rate of interest, laid the foundation for the excessive stimulus to trade and speculation which prevailed in the succeeding year.' It will be found, upon reference to the published returns, that the circulation of the Bank was considerably less at the end of 1835 than it was at the beginning of that year; and that in January 1836 it was at an unusually low point.

Early in 1836 you speak of 'the mania for speculation.' This could not have arisen from mismanagement of the circulation by the Bank, whose issues in April 1836 were at the same amount as in January 1835; whilst the bullion during that period had increased to the extent of £1,000,000.

But turn to the country issues, and you will find that, through the whole of this period, that is, from the beginning of 1835 till June 1836, they were steadily and largely increasing. Must we not, then, attribute to them, some share in "infusing the fever of speculation into the system of the commercial world?"

Again, you say "that in the spring and summer of 1837 the prices of all commodities fell to the lowest point to which they had been known to recede for a great

number of years." The circulation of the Bank, you will find, stood as high during this period as it had done during the years 1835 and 1836. But the country issues during the early part of 1837 underwent a large reduction.

You speak of the Bank "replenishing its store of bullion at the cost of heavy sacrifices to our merchants." A reduction of circulation must at all times tend to check the facility of credit and to lower prices: an arbitrary or capricious reduction is, therefore, wholly unwarrantable. But if the bullion is diminishing, then the Bank ought to have no option: it is bound to make a corresponding reduction of its issues, otherwise the paper circulation could not act as a metallic circulation would have acted. Whenever the issues of the Bank fail to correspond to the fluctuations of the bullion, spare not your censure, it is deserved; but when the Bank acts in obedience to that guide, it is strictly discharging its duty, and the mercantile pressure which ensues, cannot be justly charged to misconduct in that quarter.

You speak of the "expansive policy of the Bank and the low rate of interest consequent upon it during the year 1838." The increase of the issues of the Bank between January and December in that year, and the increase of bullion, were, as nearly as possible, of the same amount; each about £500,000.

Again, you speak of "the conduct pursued by the Bank in November of last year (1838), in making advances, repayable in January, at 3½ per cent.;" and you go on to observe, "the additional supply of paper

money thus thrown upon the market," &c. What do you mean by this additional supply of paper money? The issues of the Bank in January 1839 were £700,000 *less* than they were in the preceding November.

But you appear disposed to attribute great importance to the low rate of interest at which the Bank offered to make its advances. The Bank, no doubt, may exert a powerful temporary influence upon the general rate of interest by means of an improper augmentation or diminution of its issues; but so long as the issues are not allowed to fluctuate in an arbitrary manner, the power of the Bank to influence or determine the rate of interest is very slight. Under such circumstances, the relative proportion between the supply and the demand will fix the price of money, as of all other things; and if the Bank makes its advances below the market rate, the loss falls upon itself, whilst the benefit goes to those who deal with it. The complaint on this score might be reasonably urged by the Bank proprietors, as militating against their interests; but it seems an unintelligible ground of dissatisfaction on the part of the public, that the Bank lends its capital on lower terms than might be obtained for it. If the Bank increases its issues without a corresponding increase of bullion, prove that fact, and you may justly complain of it. But as to the rate at which the advances are made, leave the Bank to take care of itself on that score; its own interests, of which you complain that it is unduly mindful, will not allow it to go on taking less than the market will fairly yield, and if it asks more, the public will not pay it.

3. Some portion, however, of the charge of mismanagement of the circulation must still attach to the Bank. During the year 1839, and also on previous occasions, the circulation of the Bank has not been contracted in correspondence with the diminution of the bullion; and it may be justly added, that the fluctuations of the bullion would have been confined within narrower limits if the restrictive action of the Bank had been uniformly commenced at an earlier period, and persisted in with uninterrupted steadiness. It is not my intention to deny mismanagement on the part of the Bank on this occasion: it is admitted. The consequence of it, however, has been, not undue stimulus to speculation, but danger to the safety of the Bank and to the maintenance of our specie payments.

A storm arose in the early part of last year which prevailed very generally throughout the world, but more especially upon the English and American coasts. Upon the latter station, one very large vessel and many smaller craft altogether founded; and on the English coast, the first-class ship "Bank of England," neglecting to take proper precautions in due time, by reefing her sails, closing her hatches, throwing overboard a sufficient quantity of ballast, was, in consequence, exposed to the most imminent peril. She has, however, reached port, and it is now proposed to bring her commanders to a court-martial; not for un-officerlike conduct in the working of the ship during the storm, but upon the charge of having created the tempest,—of having made the winds to blow and the waves to roll. To this they reply, that

the winds and the waves are subject to a power beyond their control ; and that, as regards the conduct of their own ship, they were run down by a fleet of small traders, which drifted before the wind, with no look-out ahead ; and that, by this means, their rigging became entangled and their rudder was disabled.

The recent drain upon the circulation of this country is attributable to that Power which regulates the seasons ; which makes the sun to shine or the rain to fall. It would have occurred had the circulation been metallic ; and the fault committed by the Bank has been of that generous, though in this case mistaken, nature, which induces a powerful person to endanger his own safety, in the desire to extend his aid to those who are less able to support themselves.

But there are two points connected with that mismanagement which do not appear to have been sufficiently noticed in your Report.

First, to which I have already adverted, that the mismanagement does not rest exclusively with the Bank. The country issuers have mismanaged to a greater extent than the Bank, and have further impeded and interrupted the course of the Bank after she had begun to move in the right direction.

Second. The causes of mismanagement on the part of the Bank. This is a most important branch of the inquiry, because upon the right decision respecting it depends the application of the proper remedies.

Your Report assigns as these causes :—

1. ‘ Undue privileges possessed by the Bank.’ If

you allude to the privilege of being the exclusive issuer of paper money in the metropolis, a protest must at once be entered against denominating that as an undue privilege. The question is too large to be discussed in this letter; my only object is to have it clearly understood what the question really is, viz. Whether the principle of unrestricted competition among issuers is the appropriate means to secure regularity and steadiness in the management of the circulation. Before the privileges of the Bank are condemned, because they militate against this principle, let me hope that what has been written on this subject by those who have carefully studied it, will be well considered, and that the impressive example of the management of the circulation in the United States, and the serious lesson which that example teaches, will not be overlooked by the practical and thinking men of Manchester.

2. 'The want of available capital, which renders it impossible for the Bank to conduct its affairs with advantage to the interests of the manufacturing and commercial community.'

In what way is the capital of the Bank now invested? In Government securities, in advances to the mercantile world, and in bullion. When a contraction of the issues of the Bank becomes expedient, indeed necessary, whence arises the great difficulty which the Bank experiences in effecting that contraction? From the increasing demands of Government and of Commerce for further advances.

The connection of the Bank with commerce is the leading cause of its mismanagement of the circulation.

and yet you complain that the Bank is unable to extend and complicate its relations in that respect. The manager of the circulation ought to have no connection with trade and commerce. If they are allowed to approach her, they are sure to undermine her principles, to seduce her from the path of duty, and to destroy her character.

Again, in what securities ought the funds which guarantee the solidity of the paper money of a country to be invested? Surely in the National Securities,—in the public funds of the country.

To whose benefit ought the proceeds of a paper issue to be appropriated? To whom do the profits derivable from it properly belong? Surely to the nation at large, *i. e.* the Government. And yet you complain that the Bank has sunk the whole of its capital, and many millions derived from its deposits and circulation, in permanent loans to the Government.

It may be remarked, incidentally, that these loans to the Government, though permanent—that is, not recallable from the Government—are saleable by the Bank, and therefore available assets in its hands.

3. ‘The power over the currency is vested in twenty-six irresponsible individuals, for the exclusive benefit of a body of Bank proprietors.’

Responsibility is a term often used with respect to the administration of public affairs; but I believe it would puzzle most persons to show what it really means. It is a thing which we “as a shade pursue;” but which does not, “like a shadow, prove its substance true.” It is a name at which the world grows pale; but which in too

many cases has no reality, and indeed serves only 'to point a moral or adorn a tale.' Publicity of act, and consequent exposure to public censure, is the only real responsibility; and this responsibility attaches to the measures of the Bank. We now have a monthly statement of the amount of the circulation and bullion; seen, it is true, through the misty obscurity of a quarterly average. Remove this deceptive cloud; give us a plain statement of the simple fact each month; and we shall have no difficulty in enforcing sufficient responsibility, *i. e.* sufficient obedience to public opinion. There is more ground to apprehend erroneous views and improper expectations on the part of the public.

'For the exclusive benefit of a body of Bank Proprietors.'

The Bank has paid liberally for its exclusive privilege as regards the circulation; the Manchester people will always respect a fair bargain; that between the Government and the Bank in 1832 was eminently so, so far at least as the Bank was concerned: the Government was not the weaker of the contracting parties, nor was it in any respect over-reached. There would be no great difficulty in showing, that the profit derived by the Bank from its paper issues, is not very unlike the profit described by some of the speakers at your meeting, a near approximation to constant loss. The profits of the Bank, such as they now are, (I do not speak of what they formerly were in the *golden* days of suspension,) are principally derived from her strictly banking business, and not from her issue of paper-money. The benefit accruing from the latter,

taken by itself, and after a correct profit and loss account had been struck, I fear would excite the compassion rather than the invectives of those around you; whom I well know to be just and generous, though they may be severe, judges. The Governor of the Bank might speak through the voice of Mr. Brooks, and rejoice with him that he had known better days, and still hoped for the return of them. May they neither of them be disappointed! It is a long lane that has no turning.

Having made these remarks upon the causes assigned by you for the mismanagement of the circulation by the Bank, it is but fair that I should submit my suggestions to your criticism; in doing so I trust I shall not be deemed guilty of presumption. With this deprecatory remark, I will at once ask you to consider, to what extent the Bank is interrupted in the course of her duty as manager of the circulation. 1. By the necessity of advancing whatever the Government may require for the payment of the quarterly dividends, without reference to the state of the bullion. 2. By her connection with trade and commerce, and the obligation arising out of it, to support public and private credit in case of need; this support being always most required at a time when the decrease of bullion renders her least able to afford it. 3. By the competing action of rival issuers, over whose proceedings she has not the power of exerting an immediate control; and who have in many instances acted in direct opposition to her advice and example. 4. By the erroneous views and the unreasonable expectations entertained by the public; who often expect the Bank to effect that, which can be

effected only through a mismanagement of the circulation; and exclaim against those measures, which a due regard to her duty in managing the circulation dictates. Here is ample field for interesting discussion, over which, did time and other less agreeable avocations permit, I would gladly ramble with you. I am sure, however, that they will not be rejected by you unexamined, nor be condemned without a full and impartial trial. Summon a jury *de circumstantibus*; good men and true they are sure to be, if chosen from the manufacturers and merchants of Manchester. I waive the privilege of challenge, and at once go to issue. I do not demand an unqualified acquittal; I admit some awkward circumstances in the case of the Bank, and some evidence of a subordinate degree of delinquency. But I plead that my client is an accessory after the fact and not a principal; that he has been misled by others, and especially by a false tone of public morals on this point; that he endeavoured to restrain his associates, but without effect; that he is the victim of bad education, bad influences, bad associates, that he has never acted with a guilty intention, nor for corrupt purposes. On these grounds I ask for a mitigated sentence, a strong recommendation to mercy, a declaration that he is not unfit to be restored to his friends and to society. And I further contend that capital punishment is not appropriate to the case; but that by a judicious course of treatment, by separating him from the pernicious influence of some of his associates, and making some necessary changes in his usual course and habits of life, his evil tendencies may be effectually checked, and

he may still be rendered a very useful member of society!

Separate the management of the circulation, that is, in other words, the power of creating money, from banking business; vest that power exclusively in one body; make all its measures in that capacity perfectly public; let not the borrowers of money, Government and Commerce, approach with their dangerous and seductive influences, the creator of money; but send them, where their applications ought always to be made, to the subordinate distributors of it. Let the manager of the circulation be raised above all reach upon a solid throne of Gold; and let him once for all drop his superfluous means into the public treasury, and thenceforth remain, like the Sun in our system, by one never-varying influence, regulating, controlling, invigorating every thing around him, but himself influenced or moved by none.

Perhaps, after all, as is the case in a large portion of the disputes which arise, no great difference of opinion exists between us. Misunderstanding of each other's meaning is far more common than a real opposition of judgment. I shall rejoice if such is the case in the present instance. Of this, at all events, I am confident; the difference, if such there be, is as to the means, and not as to the end. The welfare of our common country, and as intimately identified with it, the steady and growing prosperity of the trade of Manchester, must be near to the heart of both of us. Who can fail to feel an interest in that great hive of industry? that noble, though new-born, metropolis of trade; which presents so splendid a concen-

tration of the most ennobling qualities of man; honesty, industry, intelligence, energy, enterprise, steadiness of purpose, freedom of thought, liberality of sentiment. As an Englishman, I may be proud of the Town and Trade of Manchester; and as an individual, I may be bound to them by still stronger ties of personal respect and gratitude. But these considerations are not connected with the present discussion; and the allusion to them springs only from that fulness of the heart out of which the tongue will speak. The prosperity of Manchester is another expression for the well-being of England. When that great town and the immense population dependent upon it, cease to advance in prosperity and wealth, the star of England has culminated. Failing trade will soon undermine the foundation on which every other interest rests; our teeming population, deprived of employment, will soon convert this fair and happy land into a warren of paupers; nor can the retrograde movement stop even at this stage; a dense population, maddened by disappointment and rendered desperate by irremediable want, will soon fall into a state, from the contemplation of which one may well turn away. Hence it is, that all parties, whatever may be their pursuits, or in whatever quarter of the kingdom they reside, watch your proceedings attentively, and that your Report has attracted no ordinary share of public attention. It is the commencement of a discussion of great importance, and from which I trust the most beneficial results will arise. Other persons will contribute to the common fund of information from the abundance of their acquirements; this attempt to throw something in

by a private individual, must be accepted, not for its own value, but for the sake of the feeling in which it originates; an anxious desire to promote the cause of truth, in a question which is deemed to be essentially connected with the steady and durable prosperity of Manchester.

‘The meanness of these papers, and my just distrust of them, shall not keep me, by the shame of doing so little, from contributing my mite, where there is no more required of me, than my throwing it into the public receptacle.’

I have the honour to be, Sir, with great respect towards both yourself, and that body of which, on the present occasion, you are the representative,

Your faithful servant,

SAMUEL JONES LOYD.

London, 9th January, 1840.

EFFECTS OF THE ADMINISTRATION
OF THE
BANK OF ENGLAND.

A SECOND LETTER

TO

J. B. SMITH, ESQ.

President

OF THE

MANCHESTER CHAMBER OF COMMERCE.

LONDON.

1840.

Even demonstrated improvements should not be suddenly introduced, according to the judgment, caprice, or whim of the individual writer ; but as the fruit of enlightened discussion operating slowly and imperceptibly on the convictions of the many. When changes are thus produced, they are produced not only by a slow process, but are at length almost simultaneously adopted, thus preventing any rude shock to our associations. The old are not destroyed till the new are ready to take their place.

EDINBURGH REVIEW.

A LETTER,

ETC. ETC.

SIR,

1. I cordially welcome the spirit of candour and fairness evinced by you in the discussion which has arisen between us; were all controversies of a similar nature conducted in the same spirit, they would be found a much more agreeable occupation than they usually prove to be; and would seldom, if ever, fail to produce benefit to the community, by the dissipation of error and the steady though gradual advance of truth. Impelled by this consideration, and influenced also in some degree by the great importance of the subject at the present moment, I am induced to make a few further remarks upon a subject, which, under other circumstances, I should have been disposed to leave as it now stands, and to await the verdict of those who are competent to decide between us.

That we are altogether agreed is more than I can venture to hope, though the difference of opinion between us, I am confident, is less in reality than it is in appearance; and possibly a little further explanation, and an increased attention to the precise meaning which we

attach to the expressions respectively used by us, may reduce the field of debate within very narrow bounds; and leave it in the judgment of both parties, too insignificant to be worthy of further contention. At all events let us make the trial.

2. In page 18 of your Reply, you state that "The Report makes no complaint of the Bank lending *its capital*; but of her throwing out supplies of *paper-money*, at low rates of interest, which is *not* capital. If the Bank confined itself to lending its *capital* no mischief would ensue from sudden expansions and contractions of the currency; but when the public is tempted by low rates of interest, to borrow paper-money *until the currency becomes depreciated*, and the Bank being called on to pay her promises in gold, is obliged suddenly to turn round upon her borrowers to repay, it is then that the mischief of over-issues, sudden contraction and panic, are experienced."

I presume that in this passage the word *capital* is used by you, as meaning a command of money derived from real capital in the hands of the Bank, distinguished from that command of money which the Bank derives from her power of creating paper issues. In the *capital* which you admit the Bank may lend, without producing mischief from sudden expansions and contractions of the currency, you include that capital which is deposited in her hands, and thus placed under her legitimate control by others, as well as that which belongs altogether to herself; whilst you object only to any increase of her power of lending, which may be effected by a capricious or arbitrary use of her power of creating paper-money,

‘until the currency becomes depreciated.’ If I am correct in putting this interpretation upon your words, and I think they cannot reasonably bear any other interpretation, I at once declare my adhesion to your doctrine; there is no difference between us on this point. You have stated the true test by which the conduct of the Bank is to be tried; and I am ready to join with you in determining, by the application of this test, the extent to which on any occasion the Bank has departed from the line of duty.

The Bank is at liberty to employ, according to her own discretion, that capital which she possesses, either as being originally her own property, or as being placed at her disposal by others; but the capital, or rather the appearance of capital, which she derives from her power of issuing paper-money, she must lend only in such manner and upon such terms as shall not produce excessive issues.

This brings us to the question—what constitutes excessive issues? I understand by excessive issues, issues which render the amount of the paper-circulation at any moment greater than would be the amount of a metallic circulation. If this is your meaning, again we are agreed. If however this is not your conception of excessive issues, I must at once call upon you to state distinctly what is your test of improper or excessive issues. The whole question in debate is the propriety or impropriety of the measures of the Bank and of the Country Issuers in regulating the amount of their issues; and of course the discussion can lead to nothing but confusion, unless we

settle in the outset the standard by which the amount of the issues ought to be regulated. What would be thought of a magistrate who should undertake to determine upon a charge of using false weights and measures, if there existed no recognised legal Standard Pound or Yard, by reference to which the question could be decided?

I propose fluctuations of the bullion as the standard measure by which to try a paper-currency. If this be admitted, we can proceed with the discussion. If it be not admitted, the attempt to proceed further is useless, until this question be determined. The objectors must in that case be called upon to produce their counter-standard; and in doing so, they must be required to produce one which is capable of distinct definition and of equally distinct application; otherwise it is no standard at all.

I have indeed read publications upon this subject, which assume that fluctuations in the rate of interest, or in the state of prices, or comparative depression or excitement in the state of trade, are conclusive evidences of a mismanaged circulation. I cannot however suppose that tests so indefinite, and at the same time so evidently fallacious and inapplicable will be relied upon by so intelligent a body as that over which you preside. Such fluctuations would assuredly occur with a metallic currency—no regulation of a paper-currency, however strict and consistent with principle, can possibly prevent them—and the power of forcibly controlling them can never be safely entrusted to the unrestrained discretion of any single body or of any limited class of individuals. The free competition of the community at large is the only

security which can be safely relied upon for the due regulation of these matters ; and the influence which fluctuations of the paper-issues must necessarily exert upon them, constitutes the strongest reason for subjecting the management of those issues to regulations so distinct and imperative as almost to preclude the exercise of individual discretion.

A paper-circulation is the substitution of paper, with the view to economy and convenience, in the place of the precious metals. The amount of it ought therefore to be equal to what would have been the amount of a metallic circulation ; and of this the best measure is the influx or efflux of bullion. On this ground I must assume that fluctuations of the bullion constitute the correct standard by which to measure a paper-currency. With those who contend that a paper-currency ought to be so regulated as to perform other functions than those which a metallic currency would perform, I will not now stop to dispute. It is entirely a separate question ; and before the opponents of this doctrine are called upon to come forward, the advocates of it must distinctly expound their system and the principles upon which it rests. They must explain in detail the rules by which the paper-issues upon their proposed system are to be regulated ; and they must set forth the advantages, not attainable under any other system, which they expect to secure, and the process by which this end is to be reached.

At present it is sufficient to observe, that the Legislature, so far as its intention can be inferred from the reports of its committees or the language of its Acts, has

not contemplated providing for the country a paper-currency which shall do more than act as a cheap and convenient substitute for metallic money; neither does the Bank pretend to do more than cooperate in the accomplishment of this limited and definite result.

We are bound, therefore, in justice to try the Bank by this rule, and to condemn her measures only when she has failed to do that which was required of her to make the paper-circulation act as a metallic currency would have acted; in other words, when the amount of her circulation has failed to fluctuate in correspondence with the amount of the bullion.

3. You advert in the early part of your Reply to the statement, with which the Report of the Chamber of Commerce opens, that, "Down to the end of 1835 all branches of trade and manufactures were in a state of prosperity, which they had continued almost without interruption to enjoy for several years;" and subsequently, the pressure which occurred in 1837 and again in 1839 is attributed by you to improper issues by the Bank, in the years 1835 and 1838. I agree with you that "it will be necessary to see how far this statement is warranted."

First. What were the circumstances which accompanied this period of prosperity during several years down to the end of 1835? I will describe them, not in my own words, but in those of a writer entitled to every attention on such a subject. Mr. Samson Ricardo, in his pamphlet published in 1837, states, "At the beginning of 1834 money became very abundant, and the price of the

English funds improving, the speculative action exhibited itself," (p. 9). "From December 1833 to May 1835 there is an increase in the circulation, notwithstanding that the bullion diminished to the extent of £3,750,000," (p. 15,) "the low rates of interest and high price of the English funds commencing in the early part of 1834, and doubtless engendered by a redundant circulation," (p. 16).

We thus find that, during the period selected by you as remarkable for steady prosperity, there was 'money very abundant,' 'low rate of interest,' 'speculative action,' increase of circulation with decrease of bullion, even a 'redundant currency,' all the circumstances which are considered throughout the Report as the certain and immediate causes of violent fluctuations in trade.

Second. This state of prosperity was, however, broken up, according to the Report which you undertake to defend, 'by the Bank of England throwing out a large amount of money at a low rate of interest in the course of the year 1835.'

You will find by the published returns, that the average circulation of the Bank during the year 1835, was *less* than the average amount during either the year 1834 or 1833; and that during 1835, the Bank, so far from throwing out a large amount of money, materially diminished her issues. What says Mr. Ricardo again on this point? "From September 1835 to January 1836 there is a *progressive diminution* in the circulation, a rise in the exchanges, and an increase in the stock of bullion," (p. 18).

Third. In the year 1838, the increase of the circulation, comparing the end of that year with the beginning, was in accordance with a corresponding increase of the bullion.

Fourth. Upon turning to the Country Issues, we find that during each of these years they were largely increased; a very striking fact, which it is impossible to overlook in any inquiry which may be instituted into the causes of the commercial pressure of the years 1837 and 1839, or into the mismanagement of the circulation from 1835 to the present time.

But you contend that the misconduct of the Bank during the year 1835, notwithstanding the absolute reduction of the amount of her circulation during that time, is evidenced by her "throwing a large amount of money into the market, and at a low rate of interest" (p. 6); and also by the great increase in the amount of her securities between June 1835 and January 1836 (p. 8).

A few words upon each of these points.

The large amount of money thrown into the market by the Bank was derived from largely increased deposits in her hands by the East India Company and by the payments on account of the West India Loan. It is not necessary to go into the history of these transactions; it was notorious at the time, and must still be in the recollection of the public. The explanation given upon this point by Mr. Horsley Palmer, in his pamphlet on the Causes and Consequences of the Pressure upon the Money-Market, (p. 13, 14) is very clear, and must, I

think, prove satisfactory to every dispassionate reader. (See Appendix.) The regular and ordinary course of action by the Bank had been founded upon an amount of deposits averaging perhaps twelve millions. Can it be seriously urged, that when this amount was increased to eighteen or nineteen millions by a casual and unforeseen occurrence, no part of this sum ought to have been lent out again to the public? The sum paid in to the Bank on account of the West India Loan at one period bore a large proportion to the whole amount of the Bank of England circulation. Had the Bank retained in her hands, instead of again employing, the money which thus flowed in to her, she would by so doing have contracted the circulation in a most unwarrantable manner, and have neglected the just interests both of the public and of her proprietors. The bullion did not diminish during 1835, and therefore there was no obligation to contract the circulation. The money which came into the hands of the Bank by the increase of deposits, she was bound, upon every principle of sound banking and of correct management of the circulation, to re-issue. That she did not exceed, but rather fell short of this duty, is shown by the decrease of the amount of the circulation during the year in question, unaccompanied by any corresponding decrease in the amount of the bullion. Had the re-issues not been made in the form of *loans*, they must have been made upon discounts, and the great temporary increase in the amount of these would probably have produced a much greater degree of disturbance in the Money-market, and of consequent inconvenience to the public.

The *low rate of interest* at which the advances were made was that current out of doors at the time; and it ought not to be objected to, since we find that even when made at that rate the issues were not carried to excess. This fact affords a proof that had the Bank attempted to obtain a higher rate of interest, she would have found it impossible to maintain her circulation at its proper amount.

How far this low rate of interest during the latter part of 1835, from August, 1835, to February, 1836, the period pointedly adverted to by you (p. 7), resulted from the expansion of the Country Issuers during this period, is a question deserving the most serious investigation; and I regret much that a larger portion of that "great consideration and care," with which the Report was drawn up, was not devoted to this very important branch of the subject.

The Country Issues were—

in Sept. 1835,	£10,420,000
in June, 1836,	12,202,000
Increase.....£	<u>1,782,000</u>

Whilst the Issues of the Bank of England were—

in Sept. 1835,	£18,240,000
in June, 1836,	17,899,000
Decrease.....£	<u>341,000</u>

Surely, a Report which professes to investigate the mismanagement of the circulation during the year 1835 and the commencement of 1836, and, omitting all reference to this fact, charges the Bank of England as the

exclusively guilty party, must be admitted to "lose sight of the strict rule of justice in the statement of facts and in the deductions drawn from them."

You observe (p. 11) that "no cause has been set up by the Bank to account for the sudden check to prosperity in 1837, but the necessity under which she laboured for rapidly contracting her loans and circulation, and thus counteracting the effects of the previous expansion."

It is not difficult to assign the causes which you here require. 1. The spirit of speculation engendered by the previous period of prolonged prosperity alluded to in your letter, and the consequent negotiation in this country of an unusual amount of foreign securities. 2. The peculiar condition of monetary affairs in the United States, arising principally out of the effort of President Jackson to increase the proportion of specie to paper circulation in that country. 3. The great increase in the amount of country issues between September 1835 and June 1836. To these circumstances the pressure of 1837 is attributable; the process, no doubt, through which the ultimate effect was brought about, was first an adverse effect upon the state of the exchanges, and thence a necessity for contracting the circulation. But the Bank is in no respect answerable for those occurrences; and it is as unreasonable to blame her on this score, as it would be to lay to her charge the effects of storms by sea or bad harvests on land.

You further object to the *increase in the amount of the Securities* between June 1835 and January 1836 (p. 8).

This increase of the Securities was the natural and

legitimate result of a corresponding increase in the amount of the Deposits. An increase of securities, effected by an undue increase in the amount of the circulation, would be indefensible ; but this was not the case in the period now under our consideration.

The circulation was—

in June, 1835,	£18,460,000
in Jan. 1836,	17,262,000
Decrease	<u>£ 1,198,000</u>

An increase of securities, not connected with any increase of the circulation, but arising exclusively from an increase of deposits, is strictly legitimate banking business. Indeed it is difficult to say what would have been thought of the conduct of the Bank, or what would have been its pernicious effects upon the state of the circulation, if, with increasing deposits, she had not increased her securities. The rule of keeping a fixed amount of securities, it is true, has been suggested by the Bank herself for her guidance, but the folly has consisted entirely in the suggestion of such a rule, and not in the departure from it.

An increase of securities may arise, either from an increased amount of deposits, or from an increased amount of paper-issues put out by the Bank. If it arises from an increased amount of deposits, no reasonable objection can be made to it ; as it would evidently be absurd on the part of the Bank, and pernicious to the public interest, to retain all increased amount of deposits in an unemployed state. The effect of such a course would be an unnecessary sacrifice of fair profit by the Bank, and an improper detention in the hands of the Bank of notes which ought to

be in circulation. Every other banker would increase his investment in securities with an increase of his deposits, and there can be no just ground to object to the same course on the part of the Bank. If, on the other hand, the increase of securities arises from an increase of the amount of paper-money, this will appear in an increased amount of Circulation in the periodical return; which increase of Circulation will be defensible or not, according to the corresponding state of the bullion.

An attention to this distinction may enable us to determine, how far an increase of securities is connected with, or affords any indication respecting, the state of the circulation. It is perfectly clear that the deposits in the Bank may be increased by a transference to it of deposits previously placed with other parties; this may very properly lead to a corresponding increase of securities, and this increase of securities will afford no indication whatever of any increase in the amount of the circulation. It is a *banking* transaction unconnected with the circulation. The increase of the securities becomes a sign of an altered state of the circulation, only when such increase is produced by an *additional* issue of notes; and in that case, the altered state of the circulation is best shown by the increased amount of circulation which will appear in the official return.

A curious question has been raised respecting the Deposits; some persons contending, that these are to all intents and purposes a part of the circulation, because they may be drawn out by the depositors at will, who thus have at their command a corresponding amount of

Bank-notes. The confusion, which exists on this point, arises from the unfortunate union in the same parties of the functions of banking and of issue. Deposits, in the hands of a *non-issuing* banker, will not, I presume, be deemed to constitute part of the circulation ; because the increase or decrease of these deposits cannot in any way affect the amount of paper-money actually afloat. The case is, however, different, with respect to deposits in the hands of an *issuing* banker ; he has the power to meet the demand of his depositors, by increasing improperly the amount of his paper-issues ; instead of realizing his securities, and thus possessing himself of an amount of the paper-money previously afloat, sufficient to discharge the demand arising from his depositors. When the issuing banker adopts this course, he abuses his issuing power ; and there can be no doubt that a strong temptation to resort to this abuse arises from the union of banking functions with the issuing power. It constitutes a very formidable, if not a fatal, objection to such union ; and of the force of this objection no person can express his conviction more strongly than I have done. Still, we must not suffer our attention to be diverted from this important consideration, upon which indeed the whole question depends, viz. that the Circulation is affected by the Deposits, only when the issuing banker, confounding his two functions, resorts to an abusive exercise of his issuing power, for the purpose of satisfying the demands of his deposit business. So long as he conducts his business upon proper principles, and realises securities to enable him to meet the demands of depositors, the circulation

remains unaffected. The deposits, and indeed all debts owing by an issuing banker, whether such as are technically called deposits or others, may be discharged on his part by a creation of paper-money for the purpose; but they are not on that account to be considered as part of the circulation, so long as they remain in the form of debts owing; and they never will become the cause of an increase of the circulation, if the banker does not depart from all proper principle in the conduct of his business. Deposits, debts owing, indeed credit in any form, may be made the means of purchasing and paying, of adjusting transactions; and they may therefore, in one sense, be considered as forming a part of what has been called "Auxiliary Currency." But the whole superstructure of "Auxiliary Currency" forms a subject, distinct from that of the management of the circulation. It may be raised equally upon a metallic or a paper circulation, and the fluctuations which it may undergo, are subject to laws, distinct from those which ought to regulate the substitution of paper for metallic money. The question is eminently a verbal and not a real question. It arises from the use of the same word (circulation) in a different sense by different parties; and it is to be solved by a strict definition of the terms used, rather than by a long argument conducted in terms of ambiguous meaning.

The practical conclusion, however, to be deduced from this discussion, is clear; the necessity, namely, of separating effectually, and for ever, the power of issuing from that of deposit and every other branch of banking business.

4. We will now quit the years 1835 and 1836, and pass on to the further topics alluded to by you.

You ask (p. 9,) what is meant by "the management of the currency." "Is it the putting out large quantities of paper-money at one time, and suddenly taking it in again at another, according to the practice of the Bank of England?"

To this I reply—management of the currency means regulating the fluctuations of the paper issues by the fluctuations of the bullion; and *mismanagement* consists either in putting out large quantities of paper-money and rapidly calling them in again, when there is no corresponding increase or diminution of the bullion: or in taking in large quantities of bullion, and not putting forth notes against it. By this rule I contend that all issuers of paper-money, whether Bank of England or Country Issuers, ought to be judged, and that their measures must in every instance be condemned or approved, in proportion as they conform to or violate it.

5. In the following page (10) you touch upon a subject of some difficulty—the effect of fluctuations in the amount of the circulation upon prices; and you bring into contrast, as apparently inconsistent with each other, my expression, "that expansions and contractions of the currency are seldom, if ever, the exciting cause of fluctuation in prices and in the state of trade," and the statement made by me in another place, "that a reduction of circulation must tend to lower prices," and again, "that if the currency be in excess, prices of all articles are affected in a corresponding degree."

Upon this point some further explanation is without doubt requisite.

The effect which may be produced upon prices by fluctuations in the amount of the circulation is one of time and degree. A change in the amount of the circulation must always have a tendency to produce a corresponding effect upon prices; and if the change in the amount of the circulation be maintained for any length of time, the effect upon prices, I conceive, will be inevitable. But the rapidity with which this effect will be produced, and the extent to which it will go, is in no inconsiderable degree dependent upon other circumstances than the simple change in the amount of the circulation. If the change take place simultaneously, and act in the same direction, with a tendency, originating in other circumstances, to a rise or fall of prices, it will both accelerate and intensify this result; but if the change be unaccompanied by, or if it be in opposition to, such tendency, in that case the effects of such change will be very seriously counteracted, and they may remain for some time altogether imperceptible. Hence it is not unnatural that, according to the nature of the case which we are discussing, an apparent difference of view on this subject should betray itself. When we are speaking of tendencies which depend upon the principles of the subject, or of effects to be produced ultimately, we cannot doubt the important effect of fluctuations in the circulation upon those prices; but when we are speaking of practical effects, supposed to be produced within very limited periods, our view of the subject may reasonably assume a

different form; and we may entertain serious doubts, whether fluctuations of prices may not be too hastily assigned to fluctuations in the circulation, as their certain and exclusive cause. Speaking practically, I am inclined to think that fluctuations in prices will in most cases be found to originate in some predisposing circumstances; and that fluctuations in the circulation act "as a subordinate agent," increasing or diminishing the force of those predisposing circumstances, and accelerating or retarding the rapidity of their action.

A just appreciation of this subject on the part of the public is a matter of great importance; it is easy to dwell upon the considerations which affect only one side of a question, and by an insensible exaggeration of these, and an omission of that attention which is due to facts of an opposite tendency, extreme opinions are readily arrived at. The gradual acquisition of sound knowledge is generally characterised, in its first stage, by a proneness to bold and hasty conclusions; further consideration, however, induces greater caution, and establishes the necessity of qualifying and correcting the impressions of an earlier period. The time has not yet passed out of our recollection, when the fluctuations in our paper issues were little adverted to by the public at large, and few persons thought of looking to them, as in any way connected with or influencing the disturbances to which their trading operations were continually subjected. The dissipation of this error has been followed by a strong tendency to extreme opinions on the opposite side. The doctrine that the general level of prices is determined by the value of the circulation in

which those prices are measured, and that such value is liable to be affected by fluctuations in the amount of the paper issues, is now well established; and in the first general recognition of this principle, it is not unnatural that a tendency should arise to conclude, with too much haste and want of discrimination, that fluctuations in the amount of the circulation are the immediate and only cause of *all* fluctuations which may occur in prices, and of *every* variation in the state and condition of trade. It is necessary, however, in making a practical application of the principle in question, to take great care to examine all the disturbing circumstances, and to make due allowance for the friction and resistance which these will offer to the pure development of the results which might otherwise be anticipated. Time is a great ingredient in all such questions. That may be a certain result of a given principle in the long run and ultimately, which will by no means appear in the first instance or within a short period. Other circumstances and causes may concur, or may conflict, with the principle in question; and the effects attributable to these, must be clearly distinguished and separated, before the effect of the principle can be accurately measured or determined.

An insufficient attention to the considerations I have stated, seems to have generated a disposition to over-estimate the immediate effect upon prices produced by fluctuations in the circulation; and hence a too ready reference of every disaster in trade to this supposed cause. I believe it would be difficult to point out any period, characterized by a strong spirit of excitement and rise of

prices, in which circumstances may not be shewn to have existed, unconnected with the circulation, sufficient to account for the *origin* of this state of things; although this tendency, under our present system, is always accompanied by increasing issues, which improperly foment the existing spirit.

The state of the circulation in France, and the course of monetary excitement and depression in that country, may afford some useful instruction to us on these points. The paper issues of France are very limited in amount, and issued in a manner not calculated to lead to any important deviation from sound principle. Probably the circulation of that country undergoes no fluctuations but such as would occur with a circulation exclusively metallic, and therefore no possible ground exists for attributing any mercantile or monetary derangements which may occur in France to mismanagement of the circulation. Still we know that trade in that country is subject to fluctuations of no unimportant magnitude. There have been periods, when the condition of Lyons and its vast manufacturing population has not differed materially from that which you have described as the recent condition of your immediate neighbourhood. The phenomena of high excitement and bubble-projects followed by ruinous prostration have been experienced in the money-market of Paris, as well as in that of London. These effects have been felt in both countries; not different in their nature, though undoubtedly more extensive and intense in their operation in England than in France. The cause of this difference is probably to be found in two circumstances; the greater

extent to which the credit system has been carried in this country, and the more extensive use of an ill-regulated paper circulation. When, subsequent to a period of prosperity, a reaction in trade occurs, these two circumstances tend to give additional force to that reaction, and thus afford an explanation of the severity which characterises commercial pressure in this, as compared with a similar state of things in other European countries. Still the original cause of the reaction must generally be sought for in other considerations; the occasional occurrence of such reaction is common to all countries, whilst mismanagement of the circulation is peculiar to England.

For common results must we not seek a common cause? What is it that disturbs the steadiness of prices, and occasionally spreads misery, like a pestilence, over the manufacturing population of France? The causes which I ventured to suggest in my former letter are common in a greater or less degree to all communities; and I submit that we must look to them as the primary and original sources of evils, which are not limited to any particular time or country; although England, as occupied by a more dense population, actuated by greater commercial enterprise, dependent to a greater extent upon manufacturing prosperity, and resorting more extensively to the use of paper money, may feel their effects with more severity than her neighbours. Mismanagement of the circulation may indeed, and I doubt not, does, aggravate those effects, and it is on that account a subject deserving our serious attention; but we deceive ourselves if we anticipate, by any possible management of the circulation,

to avoid altogether fluctuations of prices, and the occasional occurrence of that extensive distress which accompanies depression of trade in a highly manufacturing country. These evils are in part only attributable to the defects in our system of currency, and they can therefore be but partially relieved by any improvement in that system. Danger to the maintenance of our payments in specie, and consequently to the solidity of our whole monetary system, is an evil which arises entirely from a vicious system of paper issues, and which may therefore be effectually obviated by a wise amendment of that system.

These explanations afford an answer to the question put by you, "Why complain of the excessive issues of the Country Banks? It cannot be more dangerous for them to put out large issues of paper money than for the Bank of England to do so." Excessive issues by the Country Banks may produce more or less effect upon prices, according to the state of other accompanying circumstances. But such issues, when made not in accordance with any accompanying increase of bullion, or when made in opposition to a contraction of issue by the Bank of England necessitated by a previous diminution of bullion, must tend to disturb the equilibrium of the circulation, and, if persisted in to any extent, may endanger our payments in specie.

You object (p. 11) to my argument that the calamities of 1837 cannot be attributed to the mismanagement of the Bank in 1835, because "the circulation of the Bank was considerably less at the end of 1835 than it was

at the beginning of that year, and that in 1836 it was at an unusually low point ;” and upon the strength of my own argument on a former occasion, you contend that “a simple contrast of the state of the circulation at any two periods, selected with the view of producing a particular result, is far from being sufficient ; and that you ought to have before you a detailed statement, month by month, for the whole of the intervening period of the amount of the circulation and of the bullion.”

The detailed statement here required by you is before you. Look at the published returns of the circulation and bullion from April, 1835, to January, 1836, and you will observe a steady and almost uninterrupted decrease of circulation, month by month, through the whole of this period ; and no decrease of bullion.

	Circulation.		Bullion.
1835. April	£18,591,000	—	£6,329,000
May	18,543,000	—	6,197,000
June	18,460,000	—	6,150,000
July 30	18,315,000	—	6,219,000
July	18,322,000	—	6,288,000
August	18,340,000	—	6,362,000
September.....	18,240,000	—	6,261,000
October	17,930,000	—	6,186,000
November	17,549,000	—	6,305,000
December	17,321,000	—	6,686,000
1836. January	17,262,000	—	7,076,000

I am really at a loss to imagine upon what principle it can be contended in the face of this account, that the seeds of future mischief were sown by the Bank of England putting out an improper amount of money during the year 1835, and thus “generating an inordinate

spirit of speculation." If fluctuations of the bullion constitute the correct standard by which to measure a paper currency, it is impossible to convict the Bank of improper expansion of her issues during 1835; and it was to the charges contained in the Report on this point that I had reference, when, in my former letter, I spoke of "mismanagement sometimes imputed, where it has not really existed."

You add (p. 12) that you ought also to have before you a detailed account of the amount of the securities. I have already explained the reasons upon which I object to the amount of the securities being taken as a test of the management of the circulation; they belong to the banking rather than to the currency department, and the fluctuations of their amount must be dependent upon the deposits, which may vary without any necessary connection with the circulation.

7. We now come to the period subsequent to the harvest of 1838. During the last few months of that year, and more especially in the early part of 1839, the Bank failed to contract its issues in correspondence with the marked diminution of the bullion, and no disposition whatever has been evinced on my part to stand between the Bank and the just censures which must attach to this omission. I have distinctly stated, that in my judgment, the Bank was on this occasion guilty of undue delay in commencing the contraction of her circulation, and of insufficient firmness in carrying it out. Thus far there is no difference of opinion between us. In the course of your remarks, however, upon the conduct of the Bank at

this period, viz. November 1838, and January 1839, there occurs a passage (p. 13) which seems to me to indicate a great misconception of the true nature of the measures of the Bank at the time, as well as of the evil consequences which resulted from them. You observe, "The *additional supply* of paper money thus thrown upon the market, and the consequent rise in the prices of commodities, speedily produced the effects which, under the circumstances, might have been expected, viz. a decline in the foreign exchanges and an export of bullion."

The circulation of the Bank from November 1838 to January 1839 underwent a regular *decrease* in each month, and it has not to the present day ever reached or even approached to the amount at which it stood in November 1838. The advances, therefore, made in the Bank in November 1838 and January 1839 cannot have been the means of throwing an additional supply of paper money upon the market; they did not even maintain the supply which then existed. This being the case, "the consequent rise in the price of commodities" of which you speak, if such rise really took place; and also the decline in the foreign exchanges and the export of bullion, which undoubtedly occurred, must be attributed to some other cause.

There appears to be every reasonable ground for believing, that the circulation, previous to the harvest of 1838, was in a sound and satisfactory state, and that it would in all probability, have continued so, if the harvest of that year had been sufficient for our consumption without the aid of foreign supplies. The bullion, which had been steadily increasing for a long period, had reached

a high amount; and of the general soundness of trade at that time, probably the best proof is afforded by the extraordinary firmness with which it has sustained the subsequent pressure. In this state of things a decided failure of the harvest occurred, and a large importation of foreign corn became necessary. A corresponding increase of manufactured exports could not be expected to take place with the same rapidity, and therefore a considerable export of bullion must occur to adjust the balance. It would perhaps be too much to say that no other circumstances tended to affect the exchanges at this moment; but there can be little doubt of this having been the predominant and really influential cause. A sudden import of corn, rendered necessary by the misfortune of the season, and a demand for gold as the only means of making an immediate payment for it, at once deranged the condition of the circulation, which was otherwise in a correct state.

In this emergency, two courses were open to the Manager of the circulation. First, to effect a contraction of the issues in correspondence with the demand upon the bullion, and to maintain this contraction until the drain should cease. I need hardly say that in accordance with the principles for which I contend, this is the course which I conceive ought to have been pursued. But second, the Manager of the circulation might consider the drain upon the bullion as arising, not from a general excess in the amount of the circulation and consequent depreciation of its value, but from an accidental and isolated circumstance; that the drain would cease with the cessation of the cause, and that the gold required to

pay for the imported corn might be supplied from her existing store; without the necessity of resorting to a corresponding contraction of the circulation, which must produce inconvenience and pressure to the community. The Bank, I infer from the character of her measures, adopted this view; and hence arose the tardy and insufficient contraction of her issues. I do not defend this course; it seems to me inconsistent with sound principle and dangerous in its consequences. But it is of great importance that the true character of this course and its effects should be correctly understood; and upon this point I apprehend that a real difference of opinion exists between us.

The Bank did not throw upon the market an *additional supply* of paper money, but she delayed to contract the existing circulation with the same rapidity with which the gold went out. The effect of this was, not a consequent rise in the price of commodities, but a check to the suddenness and the extent of the fall which would otherwise occur; and a consequent continuance of the drain of bullion, until the stock in hand was all but exhausted. A desire to protect the mercantile and trading community from a pressure, originating not in their own miscalculations, but almost entirely attributable to unfortunate seasons and impolitic legislation, induced the Bank to adopt a course, which brought herself into considerable embarrassment, and endangered the convertibility of the notes. A strict regard to principle compels us to condemn this course; but in doing so, we must not forget that it originated, not in any want, on the part of the

Bank, of the desire or the power to discharge all her just duties towards the trade and commerce of the country, but in an undue and dangerous sympathy with their supposed interests; whilst the effects of this course were, as I conceive, not a rise of prices and stimulus to trade and speculation, but embarrassment to the Bank and danger to our specie-payments. Hence in my former letter, I spoke of "mismanagement attributed to those which are not the real causes of it, and made answerable for evils which are not its real consequences."

You propose to condemn and exterminate the Bank as a grasping, selfish, and unsympathising institution. I derive from these occurrences a very different lesson, and think that they ought to lead the Legislature and the public to impress upon the Bank, the necessity of more firmly resisting all solicitations or feelings which interfere with her one duty of maintaining the convertibility of her notes. Good laws and individual prudence are the proper protectors of trade and commerce. The maintenance of specie payments is the one sacred duty imposed upon the Bank. In proportion to the overwhelming importance of the object, let the obligation be distinct, simple, and free from all interfering motives. The stern and iron virtue of former ages, which compelled the administrators of law to suspend every tender or sympathising feeling in the enforcement of its severest edicts, is the proper example for the Bank.

8. The next topic in the order of succession in your Reply is the effect of the Country Issues upon the management of the circulation.

I confess, the omission of this subject in the Report seems to me to render that document incomplete and unsatisfactory, and justly to subject it to the charge of having founded its conclusions on "*imperfect views.*" How is it possible to take a comprehensive view of the management of the circulation, and of the manner in which trade and commerce are affected by it, unless the power of the Bank over the Country Issuers, and the extent to which they conform to or oppose the action of the Bank, is thoroughly investigated. The management of the circulation is commonly considered as vested in the Bank of England; at the same time the issues of the Bank do not constitute more than a moiety of the paper issues of the country, and over the actions of the other issuers no direct power of control is given to the Bank. Notwithstanding this, the obligation of providing all the specie which may be required, to satisfy the demands either of internal drain or of that which arises through the exchanges, is imposed exclusively upon the Bank. Is it just, then, to come to a sweeping condemnation of the Bank, without any inquiry into the conduct of the other issuers; and consequently without any means of knowing how far the effects imputed to the measures of the Bank are really attributable to the counter-action of other parties? Or is it a rational and philosophical mode of investigating a question, to look only at one-half of it, and the parties connected with that half, whilst you turn a blind eye upon the other half? Can you estimate the movement of the Bank correctly, whilst you pay no attention to the disturbing forces to which it is subjected?

“The object of the Report,” you say, “was to set forth a plain and tangible statement of facts, showing the causes which led to the commercial embarrassments of 1837 and again of 1839.” The conclusion at which the Report arrives is, that these embarrassments were “the effects of improper expansions and forced contractions of the currency.” And yet you state that “it was no part of the object of the Board to inquire into the effects of multiplied country issues upon the commercial and manufacturing interests of the country;” although it is clear, upon the face of the published returns, that the country issues expand and contract to at least as great an extent as those of the Bank, and that such expansion of the country issues took place in the two years 1835 and 1838, which the Report fixes upon as affording striking examples of forced expansion by the Bank. A Report professing to investigate “the evils of a system from which, though all have severely suffered, but few have taken the trouble to inquire into,” was bound, as it appears to me, to investigate the effects produced by the *various* issuing bodies upon the general state of the circulation; the omission of this branch of the subject, and the unqualified condemnation of the Bank, without any reference to the conduct of the other issuing bodies, fully warrants the remark made in my former Letter respecting the Report, “that it contains facts correctly stated, but insufficient to support the sweeping conclusions founded upon them; other facts altogether omitted; and the responsibility of mismanagement affixed to one party, which ought to be divided amongst many.”

But you urge (p. 15), quoting my words as an authority, that “before blame can be attached to the country issuers, the Bank must show that it has tried the effect of a steady and uninterrupted course of contraction, and that in the face of this the issuers of the Joint-Stock Banks have steadily increased.” This, I think, can be shown; and, unless I am mistaken, I have shown it in another recent publication. But I must be permitted to observe further, that the remark here quoted by you was made in reply to an attempt to exonerate the Bank altogether from *any share* of mismanagement of the circulation, and to throw the blame *exclusively* upon the country issuers. To this I objected, that the Bank must prove on her own part a course of conduct perfectly faultless, before she can throw the blame exclusively upon others. But the absence of this proof on behalf of the Bank will not exonerate the country issuers from their share of the blame. Their eye is not necessarily good, because their neighbour’s eye is evil. Both have been peccant parties; and this fact is distinctly stated by me in the very publication from which the above passage is quoted.

It is, however, a remarkable fact as connected with the Country Issuers, that the utmost which their apologists venture to urge on their behalf is that they will not do wrong, provided they are adequately directed by the example and admonition of the Bank; but that any laches in that quarter at once exonerates them from all responsibility. It would afford some satisfaction, could it be clearly proved that the country issues have at all times

conformed to the issues of the Bank, but in the way of this doctrine I fear there exists some stubborn facts. Admitting this, however, to be the case, it constitutes a very feeble and unsatisfactory defence of our present system of paper issues, that one-half (the country issues) will not go wrong, provided the other half (the Bank issues) make no mistake; but if the latter, the Bank, mistake or neglect its duty, then the former, the country issuers, are left without guide or compass, and will of necessity misuse their issuing power. If the paper issues of the country are to remain under the control of more than one body, surely the system ought to be such that the misconduct of one party shall not constitute a justification of similar misconduct on the part of other parties; but that each shall act as a restraint and a corrective upon errors of the others. When the Bank does wrong, she loses the right to censure the country issuers; but the public may and ought still to hold them to their duty; and if the existing system is such, that they can only learn what that duty is through the example of others, this is a conclusive proof that the system is bad, and that it ought to be reformed.

9. In the following page (16) we come to the remarks which you make upon the comparative amount of capital of the Bank and of the country issuers; and the observations on this subject in your Reply, as well as those in the Report, surprise me perhaps more than any thing else contained in either of those documents. "The Country Banks," you say, "by means of their capital, are enabled greatly to moderate the effects upon the country, of the

sudden contraction of the currency by the Bank of England."

Does this mean any thing more than that the Country Banks, in proportion to the extent of their resources and solidity, are enabled to resist the controlling power of the Bank of England; and to delay that contraction of the circulation which the adverse state of the exchanges renders necessary for the safety of our monetary system? That such is the fact, is too true; and this consideration constitutes the most conclusive and irrefragable argument against the soundness of the present system of country issues. What the instances are, to which you allude, of sudden contraction by the Bank, that is, of contraction occurring without a corresponding contraction of the bullion, is not stated, and therefore I am unable to investigate them. A continuance of the contraction of circulation, after the contraction of the bullion has ceased, is not of unfrequent occurrence. But this is not the result of any voluntary act on the part of the Bank; it is the inevitable consequence of issuing the paper money upon mercantile securities; it is one of the various evils which result from the union of issuing with Banking functions; and it was a strong sense of the extent of this evil, and of the practical illustration of it which was then in course of occurrence, which induced me to lay before the public some remarks upon the subject at the end of 1837.

For examples of sudden contractions of issue, I think that reference may be made to the returns of the Country Issues; look at the contraction which took place in these

in the first quarter of 1837, and again between June and September 1839. Country circulation was—

in Dec. 1836,	£12,011,000
in April, 1837,	11,031,000
Decrease.....£	<u>980,000</u>
in June, 1839,	12,275,000
in Sept. 1839,	£11,084,000
Decrease.....£	<u>1,191,000</u>

You are disposed, I observed, to look upon the country issues as calculated to act as a corrective upon the errors of the Bank circulation; as performing the part of a “breakwater” and tending greatly to moderate the effects upon the country of a sudden (I presume you mean an unnecessarily sudden) contraction of the currency by the Bank of England.” That the country issues may effect these results, it is of course necessary that they should be under the strict control and regulation of those from whom the issues emanate; and that these parties, in exercising that control, should be guided by a reference to sound principles of currency, and keep their attention steadily fixed upon the fluctuations of the exchanges, the only compass by which an issuing banker can be justified in determining his course. I have endeavoured to prove in another publication, by an investigation of the nature of multiplied issues acting in competition, and put out upon mercantile securities, that it is next to impossible for the issuers under these circumstances to regulate their issues in obedience to any such principles. I will not now trouble you with a repetition of that discussion, but

I will ask your attention for a few moments to the testimony on this subject, given by those who may in some degree be considered as speaking authoritatively on behalf of the country issuers.

In a pamphlet published by Mr. Joplin in 1837, and *which was sent to each Member of the legislature by the Joint-Stock Banks*, I find the following passages.

“The currency has been the subject of warm discussion for twenty years, and yet the simple fact, which is perfectly well-known to several hundreds of intelligent men connected with country banking, has not yet been ascertained, that the country banker exercises about as much influence over his circulation as an astronomer does over the movements of the planets, and that whatever effect the exchanges or the proceedings of the Bank of England may have upon it, is produced independently of him.”—*p. 54.*

“Although the circulation of the Country Banks is not governed by the bankers themselves, nor yet by the Bank of England, as it frequently enlarges at the very time the circulation of the Bank of England is contracting,” &c.—*p. 56.*

What more complete proof can be presented of disorder, and the absence of all reference to principle in the management of a paper circulation, than this description of multiplied issues, not under the control of the bankers themselves, nor of the Bank of England, (commonly called the Manager of the circulation,) and increasing at periods when the issues of the supposed manager are undergoing a diminution, rendered necessary for the pur-

pose of maintaining the convertibility of the whole paper circulation.

Again, in a publication which is characterised by its steady and uncompromising advocacy of the excellence of the present system of country issues, (Burgess's Circular, 31st January, 1840,) I find it admitted, "that the extremely high prices of corn in January 1839 drew out the large issues of country bankers, in the first six months of that year," and this fact of the high prices of agricultural produce is used, not only to account for, but also to *justify*, that increase.

Now this is the vital objection to our country issues, that they expand and contract with prices, contrary to what ought to be the result upon sound principles, and would be the result with a metallic circulation. As prices rise, the inducement to other nations to send their produce to us is increased, whilst the inducement to receive our goods in return is diminished; hence an inevitable disturbance in the balance of trade, which must in the first instance be adjusted by an export of the precious metals. The consequent decrease in the amount and corresponding increase in the value of the circulating medium is the legitimate and certain corrective of this difficulty. But if this decrease of the circulation at this critical moment is prevented by an untimely increase of the country issues, the necessary result must be confusion worse confounded. Such, I fear, is the nature of the effects produced by your 'breakwater'—not a scientific construction, but a loose irregular bank, thrown up by accident, which interrupts the steady and regular ebb and flow of the tide, and thus

produces confusion and mischief; keeping up an undue supply of water, when we are endeavouring to lower its level, and checking the influx of it when the supply is deficient.

That process, which you describe as “the Country Banks moderating by means of their capital the effects of a sudden contraction by the Bank of England,” was viewed in a very different light by a body which “having no interests separate from those of the whole trading community,” devoted to the question “great care and consideration,” with a view to the “adoption of suitable remedies to prevent the recurrence of evils so extensive.” I will quote their words.

“If the operations of all banks, whether private or formed on Joint-Stock principles, are not conducted with prudence and caution, measures adopted by the Bank of England with a view to the state of the foreign exchanges, and of the consequent demand for bullion, may be counteracted by the advances and increased issues of Country Banks. The following table will exhibit the progress of the circulation for some time past, *and it is to be inferred from the increased issues of Joint-Stock Banks at periods when the Bank of England was endeavouring to limit the amount of paper in circulation, that a due attention was not given by them to the returns published in the Gazette.*”—*Report of Committee of House of Commons on Joint-Stock Banks, 1836.*

But let us revert to the question of the capital of the Bank. In my former Letter, when speaking of the capital of the Bank, I used that word in its enlarged

sense, as comprehending all the available means of the Bank. I will now use it in its more strict and proper sense, as including only the actual property of the Bank.

The capital now lent permanently to the Government at 3 per cent. is £11,000,000. This is a sacrifice made by the Bank, in consideration of the continuance of the Charter, and it is required from her by the Legislature; because, in the judgment of that body, such an arrangement is expedient for the public interest. Complain of this, if you think proper; but let your censure fall upon the right party, upon the Legislature and not upon the Bank. Petition for the repayment to the Bank of its capital; the Legislature probably will not attend to your request, but be assured the Bank will not oppose it by a counter-petition.

But is this advance of the capital of the Bank to the Government unwise and detrimental to the efficiency of the Bank? It still remains an ultimate security for the safety of all engagements into which the Bank may enter, although it ceases to be an asset available for immediate purposes.

As a Bank of Issue; this capital still remains a guarantee for the safety of the notes issued; whilst the assets received in exchange for the notes constitute the fund, which ought to be held in an available state for the repayment of them as they may be presented.

As a Bank of Deposit and Discount; the Bank of England, like all Banks in well established credit, becomes possessed, in the course of its business, of funds amply sufficient for the proper working of the business; whilst

the advance of its original capital to the Government gives confidence to the public in the security of all its engagements, and tends to the effectual maintenance of the high credit of the Bank, upon which its efficiency, as a Bank of deposit and discount, really depends.

The true business of a banker is to employ the capital of others; to act as an intermediate party between those who possess capital seeking employment, and those who possess industry and enterprize, but want capital. His function is to facilitate, by the intervention of his judgment and personal security, this transference of capital from one class to the other. The private capital of the banker is valuable, not so much for the actual working of his business, as for the purpose of maintaining his credit, and creating confidence in the security of all his transactions; and also as a fund ultimately available in cases of unusual emergency. If this is the case with respect to bankers generally, it is so in a much greater degree with regard to the Bank of England; because her duties have a more exclusive reference to public transactions, whilst a connection with the affairs of individual traders is the more appropriate business of a private banker. To regulate the amount and secure the solidity of the paper issues, and at the same time to afford a place of safe deposit for the money of the Government and of public bodies, are the characteristic functions of the Bank. In the working of this business, the Bank becomes possessed of funds amply sufficient for all the purposes to which she ought to apply them; and her own original capital cannot be more properly disposed of, than by placing it in the hands

of the Government, as a basis upon which her credit is to rest, and a fund by which the security of all her engagements is effectually guaranteed.

But we cannot quit this topic without shortly examining what is really the condition of the Bank, both as respects available means and ultimate security.

1. Portion of rest which you admit to be really available	} £1,200,000
Of the total capital £14,500,000 lent to Government previously to 1832, there was repaid to the Bank at that time	} 3,500,000
Private capital of Bank in an available state	<u>£4,700,000</u>
2. Public deposits	£3,200,000
Private do.	5,700,000
Banking resources available to the Bank	<u>£8,900,000</u>
3. Circulation, say	£18,000,000
Less bullion in deposit, say	8,000,000
Resources derived from circulation and available to the Bank	<u>£10,000,000</u>
4. Capital lent to Government	£11,000,000
Portion of rest lent on mortgage	1,500,000
Value of buildings, &c.	1,000,000
Capital of Bank not available for immediate purposes, but perfectly good for ultimate security }	<u>£13,500,000</u>

This is a ‘plain and tangible statement of facts’—they require no comment—a community, accustomed to matters of business, is called upon to decide whether a bank thus circumstanced ‘can be conducted with safety to itself or advantage to the trading community.’ I can entertain no doubt of the decision.

To what extent it is expedient, that the Bank should involve herself by direct interference with commercial affairs, and that the trading community should be encouraged habitually to look to the Bank, as an institution whose peculiar duty it is "to promote the prosperity of our commerce and to temper its occasional reverses," is a matter of very grave and serious doubt. But whatever may be the decision on that point, the Bank possesses means of which she can avail herself, sufficient to satisfy every reasonable demand and to fulfil every useful purpose. Were this not the case, or indeed if any well-founded doubt could be entertained upon the subject, it would at once become the duty of the Government to set at liberty the capital of the Bank now in its hands; but I believe that the Government is the most proper depository for that fund, and that by no other appropriation of it could the public interest be more effectually promoted.

Let the £11,000,000, lent permanently to the Government, be considered not as the private capital of the Bank, but as the fund derived from the paper issues. What possible objection, theoretical or practical, can be made to this arrangement, by which the surplus of the paper issues, after having made a sufficient reserve of bullion, is placed at the disposal of Government; whilst the whole of its private capital, and the funds derived from its banking business, amounting together to about £25,000,000, are left at the free disposal of the Bank? Are not these means amply sufficient for every purpose connected with her own security or the advantage of the public? Neither of these results would be promoted by

the application of the whole or a large proportion of the fund to mercantile purposes; it is therefore difficult to understand the ground upon which the Report objects to the investment of it in the public securities of the country.

That the funds of the Bank are not sufficient to carry out effectively the assumed duty of supporting public and private credit must be admitted; but this is a duty which does not legitimately devolve upon her, and for the effectual discharge of it, no funds, short of the whole capital of the community at large, will be found sufficient.

10. The last charge against the Bank, alluded to in your Reply, (p. 21,) is founded upon the supposed exorbitant amount of the profits of the Bank, and the complaint that not one farthing of the profit derived from the paper issues is received by the Government. If such be the case, if the Bank does not give an adequate consideration for her privilege with respect to the paper issues, let this fact be clearly established, and a more equitable arrangement be entered into between the Government and the Bank. The pecuniary arrangements between these parties are not perhaps so simple as might be wished, and there is some difficulty in ascertaining with accuracy the true state of the account between them. It is clear, however, that your mode of establishing the charge against the Bank will not bear examination.

Your first item of sums received from the Government by the Bank is,

Interest on capital, £446,502.

This is interest at three per cent. upon the capital lent by the Bank at a rate below its fair value, and therefore instead of being brought forward as a contribution by the Government to the Bank, a sum equal to the difference between three per cent. and the real value of the capital; say five per cent., ought to have been put down on the other side of the account.

The next item is,

Interest on Government securities, £670,598.

These securities must have been purchased with the funds of the Bank; and the interest received upon them differs in no respect from the interest which any private banker may receive from an investment which he has made in Government or any other securities.

The last item is,

Allowance for management of public debt, £251,896.

This payment, by the last arrangement in 1832, was reduced by £120,000. The management of the public debt is a business necessarily involving a very heavy expense and considerable risk; which probably are not adequately covered by the sum now paid to the Bank on that account.

These explanations, I think, are sufficient to show that your estimate is wholly fallacious as a means of determining the real extent of the profits of the Bank.

Let us now endeavour to make some approximation to a correct estimate of them by a different process.

The Bank now pays a dividend of seven per cent. upon £14,600,000 stock, being £1,022,000 per annum.

The capital of the Bank is.....	£14,600,000
Accumulated profits under head of "Rest,"	} 3,880,000
" Value of Buildings," &c.	
Total private capital of the Bank	<u>£18,480,000</u>

The sum annually paid in dividends, £1,022,000, is five-and-a-half per cent. upon this private capital; and this constitutes the real rate of profit, including interest upon its capital, now realised by the Bank. A part of this profit is derived from a private banking business, carried on by the Bank independently of the Government. The remaining portion constitutes the profit derived by the Bank from its connection with the Government and the Circulation. The question is, whether five-and-a-half per cent. upon its capital, from which the profit upon the private banking business of the Bank ought to be deducted, is an exorbitant rate of profit, upon a business involving great labour, anxiety, and risk, and requiring very large capital and unbounded credit. Let an intelligent and reasonable public decide.

Or the same account may be stated in another form:—

Original capital of the Bank.....	£14,600,000
Accumulation of past profits not distributed to	
Proprietors.....	3,880,000
Present actual capital of the Bank.....	<u>£18,480,000</u>
Interest upon this capital at Four per Cent	£739,200
Profits actually divided	1,022,000
Surplus of profit beyond interest upon capital	} £282,600
at Four per Cent.	

The private deposits by the return made in 1832 amounted to £5,680,000. The annual profit upon these cannot be reasonably put down at less than £150,000. This leaves £132,000 per annum for profit upon Government business and the Circulation. Whether this be exorbitant or otherwise, I would confidently leave to the decision of yourself or of the Chamber of Commerce. I am sure that you do not really wish to contend for any thing unreasonable, but I much fear that you have surrendered yourself to hasty, and therefore erroneous, impressions on this subject. In making these remarks, I have no desire nor intention to advocate the interests of the Bank in opposition to those of the public. My own interests and sympathies are all associated with the latter. I wish neither to secure undue privileges nor exorbitant profits to the Bank; but I am most anxiously desirous that this question should be decided, not upon imperfect views and partial representations, but upon a correct understanding of the whole state of the case.

11. In the conclusion of your Reply you remark that the "Report" was properly silent upon the subject of a remedy for the evils complained of. This silence was the very consideration which induced me to make a public protest against the purport of that Report. I saw an indiscriminating attack made upon the Bank, and upon grounds which appeared to me wholly untenable. I felt confident that the tendency of the Report (and it also appeared to me that it was its intention) was to lead to the annihilation of the Bank, whilst no suggestion whatever was made of any institution to be substituted in its place. The consequence would necessarily be, that

all regulation of the paper-issues of the country upon any fixed system would cease; and the management of the circulation, if management it could then be called, would fall into the hands of an unlimited number of rival issuers, co-equal in power and authority, and subject to no general law for their guidance—a state of things, as I firmly believe, detrimental beyond all calculation to the true interests of every class in the community.

That I am not blind to the defects which exist in the present system of the Bank of England, I have given the best proof in the unequivocal declaration of my opinion respecting them; but those who freely censure what is wrong, may become, without inconsistency, the most earnest defenders of what is really valuable in our institutions. Defects may be pointed out with a view to the removal of them, and ultimately to the increased efficiency of the body which they only disfigure or embarrass. But to urge the destruction of a great existing institution, on account of particular and limited defects, which are capable of removal, and to suggest no substitute, is to confound destruction with true reform, and to mistake general confusion for the correction of specific evils. The Bank is calculated to render the most important service in controlling the paper-issues, and effectually securing their constant convertibility; but her efficiency in this respect has hitherto been much diminished by the imperfect nature of the power assigned to her, and by some defects in her own constitution. Let us deal with them, as we have recently dealt with similar defects in the constitution of our country. On that trying occasion, the steady good sense of Englishmen did not forget the

important truth, that 'it is in the loftiest rooms and the richest entablatures we find the most spider-webs;' they endeavoured to remove the webs, and to purify without injuring the lofty rooms and the rich entablatures. The example is before us for our present instruction and imitation. Whatever defects exist in the construction or in the administration of the Bank, these ought to be removed carefully but effectually.

Possibly, even a complete reconstruction of the Bank, based upon the principle of creating for the whole kingdom one Bank, of issue and of issue only, may be deemed to be expedient and practicable. Such a proposition is undoubtedly consistent with sound principle; the adoption of it would at once place the paper issues of the country under one uniform, steady, and well-defined system of regulation; it would put an end to the fruitless discussions which have been raised, as to what really constitutes the circulation, and to the erroneous impressions which arise from the present apparent influence of the Securities and Deposits of the Bank upon the amount of the Circulation; it would protect the community from that portion of the fluctuation in prices and disturbance in the state of trade, which can be justly attributed to mismanagement of the circulation under our present system; it would protect the maintenance of our specie-payments from many causes of danger to which they are now exposed; and concurrently with these advantages, it would secure to the Government on behalf of the public the whole profit derivable from the paper-circulation, from one moiety of which the Government at present derives no benefit whatever. The public must estimate the force

and value of these considerations; and decide how far they are sufficient to justify the attempt to reconcile such an institution with existing habits and interests. But let us not sweep away the existing institution, unless we are prepared to erect a more perfect edifice upon its ruins; lest by so doing we surrender advantages, which, however incomplete, are still not inconsiderable; and the value of which the public may possibly learn to appreciate more justly, when instructed by the bitter sense of the loss of them. Let not "the old be destroyed till the new is ready to take its place."

12. I have been drawn into greater length than I anticipated on this occasion. My respect for whatever emanates from the Chamber of Commerce of Manchester must be my plea for having taken up the pen; my desire in common with yourself, that the whole subject should be fully inquired into, together with the satisfaction of discussing an important question with a fair and candid opponent, must be my excuse for not having sooner laid it down. We may both rejoice that the subject is to be taken up by a Committee of Parliament; and I am sure that we shall unite in the hope, that by its consultations in this matter, the light of sound intelligence may be generally diffused, and the true interests of the community be established, upon their best and surest foundations, those of truth and reason.

I have the honour to be, with great respect,
Your faithful servant,

SAMUEL JONES LOYD.

London, 2nd March, 1840.

APPENDIX.

"It may be as well to explain the nature of what are termed extra deposits, in order to show that they are independent of the regular working of the Bank. They have consisted of money belonging either to Government or the East India Company, altogether independent of their ordinary transactions. The first arose out of the contract for the West India Loan, upon which a discount was allowed for prompt payment higher than the market rate of interest; and as the prompt payments thus made were not required for issue to the West India claimants for several months afterwards, it became necessary, in order to preserve the currency in the same state as if the payments for the loan had not taken place, and to prevent its undue contraction, to re-issue the money to the public. This was done by contract with the money-dealers, so as to ensure its return to the Bank at the time of the adjustment being made with the claimants by the Commissioners. It ought further to be borne in mind, that during the whole period of those loans, the foreign exchanges were high, increasing the quantity of gold in the coffers of the Bank to a considerable extent, a circumstance which would have rendered it quite unjustifiable for the Bank to have permitted a contraction of the currency by the prompt payments on account of the loan, and an advance in the rate of interest to have been thus unnecessarily and forcibly effected to the detriment of the commerce of the country.

"The second cause was that of the East-India Company realizing their commercial assets to an extent far exceeding their ordinary wants for payment. Upon the commencement of the accumulation, to the extent of £600,000 or £700,000 above their ordinary balances, an application was made to the Bank to ascertain whether it would undertake the risk of lending the money, paying to the Company a given rate of interest ; if declined, the Company were prepared to lend it themselves, having received offers from some of the principal money-dealers to take it. The question, therefore, simply was, whether the notes should be paid away by the East-India Company or the Bank ?

"It never could be expected that the Bank should be required to pay a rate of interest for notes or bullion belonging to others, merely for the sake of keeping them unemployed ; having at the same time no excess beyond the 24½ millions of securities, which the ordinary working deposits and circulation entitled that body to hold. Hence it is evident, that in the first case the Bank was, for the benefit of commerce, required to re-issue the monies received on account of the West-India Loan, and that in the second, if the Bank had not consented to advance the money, the East-India Company would have lent it themselves. The only point, therefore, was one of management, viz. to keep the currency from undue fluctuation, and to insure the return of the notes from the market at the periods when the Government and the Company required them for issue in the same direction, which was effected to the letter."—HORSLEY PALMER, *On the Causes and Consequences of the Pressure on the Money-Market.*

THOUGHTS

ON THE

SEPARATION OF THE DEPARTMENTS

OF THE

BANK OF ENGLAND.

LONDON:

1844.

No arguments are to be looked at with more suspicion than those, which, from the acknowledged impossibility of attaining to perfection, would infer, that it is absurd to attempt the nearest possible approximation to it. If a system be erroneous, the very consequences of its errors generally constitute the most powerful impediment to a correction of it. But if that impediment were to be held conclusive, the result would be no other than this—that the errors of inadvertency when they have prevailed for a certain time, are, upon a discovery of their nature, to be persevered in from deliberation and choice.—*Huskisson on Depreciation of the Currency.*

If the currency consists partly of coin and partly of paper, the excess of paper, above what the currency would be if it were coin, must be an excess of currency, and naturally tend to depreciation.—*Huskisson's Speech on Mr. Horner's Resolutions.*

THE following remarks were drawn up and printed in the year 1840. At that time they were used only for private distribution; but as the question to which they refer has, during the present Session of Parliament, occupied a large share of the public attention, I now venture to submit them, with slight alteration, to more general perusal.

The arrival of the period at which it is competent for Parliament to revise the Charter of the Bank of England has afforded to Sir Robert Peel the opportunity for bringing forward a measure, in which it is proposed to carry out the principles advocated in the following pages, to a greater extent than, at the time of writing them, I could venture to anticipate. This measure has received the generous and cordial approval of the most distinguished men of opposite parties; and the readiness with which the Directors of the Bank of England have acquiesced in it, clearly proves their confidence in the practicability and safety of its provisions. It has been justly described by its author as the complement of the Bill of 1819; as the further step which was necessary, to render that measure complete, and to give to the public every possible security for the effectual maintenance of specie payments. This is the true object of the measure;

and by its efficacy or otherwise in this respect, the success or failure of the measure ought to be tested.

To guard against commercial convulsions is not the direct or real purpose of the Bill. To subject the paper issues to such regulation as shall secure their conformity in amount and value with, and consequently their immediate convertibility at all times into, metallic money, is the purpose to which the provisions of the measure are avowedly directed; and if the Bill further exerts any indirect influence in restraining the oscillations of commercial excitement or the fluctuations of prices, it can only do this to the extent to which mismanagement of the circulation has hitherto under the existing system been the means of originating or fomenting these evils. It has, however, been urged as an objection to this measure, that it will not effectually prevent the recurrence of commercial revulsions. The answer to this cannot be so well given as in the words of one of the ablest supporters of the measure; to whose unwearied industry, singularly acute perception, and sound philosophic views, as Chairman of the Parliamentary Committee of Inquiry, the public are mainly indebted for the successful conduct of that investigation, and for whatever public benefit may result from it. "I anticipate from the adoption of this measure a less fluctuation in the amount of the circulation—a less fluctuation in the range of prices; but I am not so unreasonably sanguine as to suppose that it will put an end to all speculation and to all miscalculation in commercial matters. Prices will necessarily vary, according to the relative supply and demand for com-

modities at various times. Speculators will make mistakes in their calculations as to the amount of the supply and the urgency of the demand. Prices may be unnaturally forced up, and individuals may be ruined in the collapse. All this cannot be put an end to, so long as competition exists in trade, and hope of gain influences human minds; but it is no reason why we should not remedy what is in our power, because we cannot attain every thing. We can prevent an additional stimulus being given to a rise of prices and undue speculations by the influence of an ill-regulated currency; and this it is the duty of the legislature to attempt."

Another objection has been stated:—That the Bill will unduly contract the circulation of the country, and deprive all classes of that accommodation which is requisite for the prosperity of their respective pursuits. Those who urge this objection either omit to state their real views, or they object to the measure on false grounds. If they intend to object to that degree of contraction of the circulation, which, under any system of management, may be necessary for the security of specie payments, and are prepared to abandon the maintenance of our standard of value, let them at once openly and explicitly avow their purpose. The public mind, I believe, is made up on that point, and will not sanction their views. The evil consequences of having once consented by suspending cash payments to abandon our fixed standard of value and the almost insuperable difficulty of effecting a return to a sound state, are now well understood. Whilst the recollection of these remains fresh in the public mind, no

proposal for a repetition of so fatal an experiment will be listened to.

But, if they mean that the present Bill will cause a contraction more extensive or more inconvenient than that which has been found necessary under the present system for the protection of the bullion, the obligation of establishing this assertion by direct proof rests with those who urge the objection. I refer to the following pages for the reasons by which I am led to the conclusion that such apprehensions are destitute of any real foundation; and that the public may justly anticipate, under the operation of this Bill, a diminution, rather than an increase, of the inconvenience and pressure which have usually characterised the last stages of a drain of bullion.

The present system, equally with that which it is proposed to substitute for it, recognises the necessity of protecting the convertibility of the notes by contraction of circulation; the only point in doubt is, by which system will the necessary result be accomplished with the least contraction of circulation, and therefore with the least inconvenience and pressure on the public. Hitherto contraction of circulation has usually been delayed till the effect of adverse exchanges has been long in operation, and the amount of bullion has been seriously diminished. This has been done, if indeed with any definite purpose, in the hope probably that the mere payment and export of bullion would prove sufficient to correct the exchanges, and to stop the drain; without any corresponding contraction of circulation. Abundant experience, however, has proved the futility of such

expectations, which are altogether of an empirical character, resting upon no certain or well-defined principle. The consequence of this system has been, an abrupt and violent action upon credit and prices at an advanced period of the drain ; and the ultimate evil, exhaustion of the bullion, obviated, not without great difficulty, and at the expense of severe pressure upon the public. The Bill now under consideration proposes to substitute a system of early, steady, and continuous contraction in the place of that which has been late in its commencement, sudden, and violent in its operation, and irregularly carried out. By this means, it seems almost a matter of demonstration, that the occurrence of many circumstances, by which the intensity and extent of former drains have been increased, will be prevented ; and that the correction of those causes of drain which cannot be altogether obviated, will be brought into operation in an earlier stage of the drain, and will therefore be effected with less contraction of the circulation, and consequently with less inconvenience to the public.

Many other ingenious objections have been brought forward in the course of these discussions. Country Banks, it has been said by some, and even the Bank of England, cannot arbitrarily increase the amount of circulation. Competition accompanied by convertibility is an effectual and sufficient regulator of the issues—an increase in the amount of paper issues does not increase the purchasing power, and therefore does not necessarily raise prices—a restriction of the amount of paper issues will not necessarily involve a restriction of credit or of

the general power of purchasing—it will only cause an increased resort to other forms of credit—speculation, when such is the disposition of the community, will have its way, and in spite of all artificial regulations it will find the means of gratifying itself.

It is not necessary to investigate the separate fallacy upon which each of these arguments depends. This has been done with great acuteness and perspicuity in a short tract which has recently proceeded from the pen of Colonel Torrens, and to which those may safely refer who wish to pursue more refined and abstract discussions on points connected with this subject than it is the purpose of these remarks to enter upon. One general answer, however, may be given to all of them.

Since the resumption of cash payments in 1819, the power of converting the notes into specie on demand, and consequently the stability of our monetary system, has on several occasions been brought into imminent danger. The Bank has been reduced, by the continued demand for gold, to the last extremity; and the actual suspension of its payments in specie, and consequently the entire derangement of our monetary system, has been obviated rather by some fortunate accident or chance remedy than by the certain operation of any definite principle. With a metallic circulation no danger of total exhaustion of the gold could arise. As a portion of the metallic money was exported, the quantity of that which remained being diminished, the value of it would be proportionately increased; and consequently a limited proportion only of the gold in circulation could be drawn out of the country

by any foreign demand. The effect of an adverse exchange must be the same when it acts upon a mixed circulation of gold and paper; provided this mixed circulation is so regulated that the amount of it necessarily varies as the amount of a purely metallic circulation would vary. The danger therefore to which our monetary system has been exposed, and the public inconvenience and alarm which have accompanied that danger, must have arisen from the fact, that the aggregate paper circulation of the country has not been so regulated as to secure a conformity in the fluctuations of its amount with what would have been the fluctuations in the amount of a metallic circulation. To establish such regulations as shall obviate this defect is the object of the Bill now before Parliament. The issues of the Bank of England will, under the provisions of that Bill, be made to conform strictly to the fluctuations of the bullion; whilst the possible irregularities of the Country issues, so far as England is concerned, will be restricted within narrow limits. The regulation, upon similar principles, of the paper issues of Scotland and Ireland remains a matter for future legislation. The Bill therefore, though not absolutely complete in all its provisions, goes far towards placing the circulation of the country upon a sound basis, and thus affords important additional guarantees for the effectual maintenance of our established standard of value.

The Bill of 1819 restored the depreciated currency of the country to its just value—*moneta in justum valorem restituta*—and the present measure gives further strength and security to that settlement, by removing those un-

suspected sources of danger which subsequent experience has developed. Public gratitude is due to the Minister who has had the integrity and courage successively to introduce these measures, and thus has placed the monetary system of the country upon an honest and sound foundation. Some degree of inconvenience and pressure must arise under any system whatever for the management of the circulation. It is the price which must be paid for protection against the far more serious evils which would attend a continuous depreciation of the currency; and it will, therefore, be cheerfully submitted to by every intelligent and honest community. But a system of depreciating the currency must have its limit; it is a process which cannot be carried on to an indefinite extent. Whenever that limit is reached, then will necessarily commence the difficulty and pressure connected with the measures requisite for checking further depreciation of the currency by limiting its amount. These evils cannot upon any plan be ultimately avoided; the postponement of the necessary contraction will, however, greatly increase the intensity of them; by super-inducing that ruinous injustice to extensive classes, and that general confusion and alarm, which are the certain consequences of any course of action which tampers with, and endangers the stability of, the fixed standard of value in a country. By what means the necessary regulation of the amount of the issues may be enforced, how the standard value of our currency may be secured against every danger, with the least sacrifice on the part of the public, is the question now before us. The present system relies upon delay and expe-

dients ; it endeavours to fly from, rather than to meet and overcome, difficulties ; it shrinks from the prompt and manly application of the remedies, painful at first but safe and effectual in the end, which science dictates : and

empirick-like, applies
To each disease unsafe chance remedies.

The result is shown in the following pages. The crises of 1825, 1837, and 1839, are the fruits which we have gathered under this system.

It is now proposed to adopt a different course. The difficulty is henceforth to be met at the very moment of its commencement ; and the corrective measures, founded upon intelligible and well-ascertained principles, are to be applied without interruption, until the evil has been subdued. Contraction of circulation is to be made precisely coincident, as regards both time and amount, with diminution of the bullion ; and thus it is conceived that the danger of total exhaustion, which could not befall a metallic circulation, will be rendered equally impossible with respect to a mixed circulation of gold and paper. The result remains to be ascertained ; but all reasoning confirms the soundness of the grounds upon which this experiment is founded ; and justifies a sanguine expectation, that, by a close and steady adherence to principle, the safety of our monetary system will be more effectually secured. Whatever may be the inconvenience to the public involved in the measures necessary for this purpose, it would be unwise in the extreme not to submit to

it. There is fair ground, however, to anticipate that many adventitious difficulties, which have arisen out of the working of the present system, will be obviated; and that the essential object of the Bill will be accomplished without subjecting the public to any increase of the inconveniences which they have hitherto experienced during a drain of bullion.

July 4th, 1844.

THOUGHTS,

&c. &c.

I. THE only object of the proposed separation of the departments of the Bank of England is, to obtain an effectual security for the regulation of the amount of the paper circulation of the country in correspondence with the fluctuations of the bullion; such regulation being deemed to be essential for the certain maintenance, under all circumstances, of the convertibility of paper issues into specie.

The present union of Banking functions with management of the circulation, not only in the same parties but in the same system of accounts, is deemed to be incompatible with the accomplishment of this object, for the following reasons:

1. Because the paper circulation is thus issued upon mercantile securities, and there is, therefore, a very strong tendency to increase its amount with rising prices and to diminish its amount with falling prices; which is the reverse of what would take place with a metallic circulation.

2. Because, as the issuers also receive deposits as well as issue notes, they are subjected to a strong temptation to meet the demand of depositors by an improper increase of paper issues, instead of a realization of securities.

3. Because the connexion of the issuers with trade and commerce creates a strong inducement to aid and support public and mercantile credit, during a period of pressure, by improper increase of issues.

4. Because the mismanagement of the circulation seems in almost all cases to be distinctly traceable to these causes.

5. Because the union of the two functions, of circulation and of deposits, is found to cause inevitable confusion both in reasoning and in action. This appears in the measures of the Bank of England and in the defence which has been made of them—similarly as regards the country issues—in the confusion of ideas prevalent amongst the public respecting the connexion between the amount of circulation and the amount of liabilities.

“No correct notions can ever be formed upon the subject of currency, unless the business of issue be clearly separated in the reader’s mind from the other transactions which form the real and legitimate employments of the Banker.”—*Norman’s Remarks*, p. 32.

A regulation of the amount of the paper circulation of the country in correspondence with the fluctuations of the bullion is deemed to be essential on the following grounds:—

1. A metallic circulation could never be drained out. Because as the drain went on, the decreased amount would produce a continually increasing value of the circulation; which by its effect upon the rate of interest, upon

the state of credit, and upon prices, would assuredly stop the drain at some stage of its progress.*

2. The case will be the same with a paper circulation, provided the paper issues be contracted as the metallic money would have been.

3. But, if the paper be not contracted upon this principle, the security for the certain stoppage of the drain is lost. Suppose the paper circulation to be thirty-six millions, against which twelve millions of bullion are held in reserve. Suppose further this amount of circulation to be excessive as compared with the currencies of other countries, and that, consequently, a drain of bullion ensues.

If under these circumstances the paper be contracted as the bullion goes out, this contraction will soon equalise the value of our currency compared with that of other countries, and thus the drain will be stopped.†

* This exportation of bullion can never continue long, because the transmission of a comparatively small quantity of that metal which forms the standard and currency of a country, not only operates, like that of any other commodity, to diminish in so much the balance of debt to other countries; but likewise to force the exportation and to diminish the importation of all other goods; and thus more rapidly to improve the exchange, than the export of any other commodity to the same amount. As the exchange improves the exportation of bullion of course ceases.—*Huskinson on Depreciation of the Currency*, p. 97.

† I do not think that the suspension of cash payments was at that time (1797) of absolute necessity; I have never entertained the least question but that if the bank had continued to pay, and to suppress its notes as it issued treasure, the crisis would have been got over.—*Tooke's Evidence*, 1832, Qu. 3827.

But, if the paper circulation be not contracted in correspondence with the decrease of the bullion, there can then be no certainty that the value of the currencies will be thus equalised; and, consequently, there can be no security that the bullion may not be entirely drained out.

The larger the amount of the bullion, the greater, no doubt, becomes the difficulty of draining it out; it will require a longer continuance of the drain, or a more intense drain.

But bullion, equal to the amount of the whole circulation may be drained out, if its place be continually supplied by paper issues, and the total amount of the circulation be thus kept undiminished.

Thus it appears that contraction of the circulation in correspondence with the decrease of the bullion is the only measure which can afford effectual security for stopping the drain of bullion.

It is equally necessary for the effectual *recovery* of the requisite amount of bullion after it has been parted with.

It may be asked of those who object to the principle that a paper currency should vary directly as a metallic currency, what principle they would substitute for it?

To this no satisfactory or sufficient answer can be given by them. They must trust to the chapter of accidents, and leave the stoppage of the drain to depend upon circumstances over which they cannot pretend to exercise any certain, definite, or efficient controul.

But it is said that a large store of bullion, and a continuance of the present system of acting upon a blended

account of circulation and deposits, will enable the Bank of England to delay the period of commencing the contraction of circulation, and thus render it more 'convenient' and 'accommodating' to the public.

The effects of *postponing* the period of contraction and of subsequent expansion are very important.

↳ Contraction of circulation acts—first upon the rate of interest—then upon the price of securities—then upon the market for shares, &c.—then upon the negotiation of foreign securities—at a later period, upon the tendency to enter into speculation in commodities—and lastly, upon prices generally. These effects may be retarded or accelerated by other circumstances; possibly they may not occur precisely in the manner here stated; but this is something like the order of succession in which the effects of contraction of the circulation are gradually developed.

The case is similar, when the action is in the opposite direction; that is, when the circulation is increasing.

Interest is first affected; speculation in commodities and prices are the last to be affected.

An attentive consideration of this process will enable us to perceive the important difference between contraction of circulation at the commencement of a drain, and contraction resorted to at a more advanced stage of the drain. And it will probably lead us to doubt, whether the convenience of the public will be promoted, and the severity of the action upon the rate of interest, upon the state of credit, or of confidence, will in the end be diminished, by any plan, which proposes to mitigate the effects of contraction by postponing the period of its

commencement. It must be observed, moreover, that to whatever extent the rule of contracting the paper issues in precise correspondence with the decrease of bullion is suspended or modified, to that extent uncertainty and danger, with respect to the convertibility of the notes, are introduced.

There can be no fixed and definite rule to determine the time and extent of the proper contraction of paper circulation, except correspondence with the bullion.

Without this rule, all must be left to the irregularity and uncertainty of individual discretion. The manager of the circulation must undertake to foresee and to anticipate events, instead of merely making his measures conform to a self-acting test.

In the exercise of such a discretion, the manager of the circulation, be he who he may, we may safely say will, in nine cases out of ten, fall into error; whilst the interests of the whole community, and the fate of all mercantile calculations, will be dependent upon the sound or unsound discretion of some individual or body; instead of depending upon their own prudence and judgment, exercised under the operation of a fixed and invariable law, the nature and provisions of which are equally known to every body.

II. Let us now proceed to examine the management of the circulation during the last few years, with the view of ascertaining, if possible, how far that management has deviated from the course which must have been pursued under the separation of the departments, and what have been the effects of such deviation.

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	Bullion.	Bank Circulation.	Aggregate Circulation.	Country Issues.
*1833.	£	£	£	£
September	11,078,000	19,780,000	29,932,000	10,152,000
1835.				
September	6,261,000	18,240,000	28,660,000	10,420,000
December	6,626,000	17,321,000	28,455,000	11,134,000
1836.				
March	7,701,000	17,739,000	29,186,000	11,447,000
June	7,362,000	17,899,000	30,101,000	12,202,000
September	5,719,000	18,147,000	29,880,000	11,783,000
December ..	4,545,000	17,361,000	29,372,000	12,011,000
1837.				
March	4,048,000	18,178,000	29,209,000	11,031,000

In the year 1837 commercial and monetary pressure occurred. It is important to trace accurately the progress of the circulation previous to that period.

In September, 1833, the bullion, the Bank circulation, and the aggregate circulation of Bank and country issues, were all at their *maximum*.

At the same moment the country issues were at their *minimum*.

By the month of December, 1836, the bullion had sustained a decrease of £6,533,000, the Bank circulation of £2,419,000, the aggregate circulation of £560,000,

* Since these remarks were written, further returns, more accurate in detail, respecting the bullion and circulation, have been furnished in the Appendix to the Report of the Committee on Banks of Issue, 1841. I have not, however, thought it necessary to recast the above statement ; although there exists some difference in actual amounts between it and the later returns, there is no real difference whatever in the character of the statements, or in the inferences justly deducible from them. I place the facts and the reasoning before the public *now*, in the form in which they were submitted to the more limited circle of my private friends in 1840.

whilst in the same period the country circulation had *increased* £1,859,000.

In the following three months, viz. from December, 1836, to March, 1837, the bullion sustained a further *decrease* of £500,000; but the Bank circulation was *increased* £800,000. The aggregate circulation was *diminished* £170,000; the country circulation was *diminished* £1,000,000. It is further to be observed, that during this period, within which the bullion passed by a steady and almost uninterrupted course of decrease from its *maximum* to its *minimum* point,—a *decrease* of more than *sixty* per cent. —

The aggregate circulation did not vary more than *five* per cent. ; and that variation was not in accordance with the bullion, but very irregular—the period of maximum amount occurring when the bullion had sustained a large decrease.

The Bank circulation varied *twelve* per cent. ; and more nearly, though by no means strictly, in accordance with the bullion. The maximum point corresponds with that of the bullion ; and again, in December, 1836, we find the bullion and the Bank circulation both at a low point.

The following three months, however, present a very different phenomenon—a farther *decrease* of the bullion with a very large *increase* of Bank circulation.

The country issues varied *twenty* per cent., and with no sort of correspondence to the bullion or to the Bank issues. The *minimum* of country issues corresponds with the *maximum* of bullion and of Bank issues (September,

1833). The *maximum* of country issues, as also of the aggregate circulation, occurs when the bullion has proceeded about half way in its course of *reduction* (June, 1836). The country issues are again very near their *maximum* point (in December, 1836) when the bullion has sustained a serious and rapid further *reduction*, and when the Bank circulation is almost at its *minimum* point; and during the three following months,—within which we have already observed that the Bank circulation underwent a most remarkable *increase*—we find the country circulation undergoing an equally extraordinary *decrease*. So that the result is, that with violent and opposing fluctuations by the Bank and Country circulation, between September and December, 1836, and again between December, 1836, and March, 1837, the aggregate circulation varies but slightly, although during this time the bullion, previously very much reduced, continues to diminish steadily and largely.

Such are the facts.

What are the inferences to be deduced from them?

1. That there exists no efficient connection between the fluctuations of the Country Issues and those of the Bank.
2. That by the conflicting action of those two sources of issue, the aggregate circulation is maintained at a comparatively *uniform amount*, during a period when the long-continued and heavy drain of the bullion required a corresponding *contraction* of circulation.
3. That consequently the aggregate circulation cannot be considered as subject to any management or regulation which has reference to the bullion.

4. That in consequence of the absence of early and steady contraction of the circulation, the decrease of the bullion remains for a long time unchecked, and therefore goes to a greater extent than it otherwise would do; that consequently, to replace the Bank in a satisfactory position, a larger amount of bullion has to be drawn back to the country, and to effect this there must be a correspondingly heavier pressure upon trade and upon prices, either in amount or in duration. The effect of early contraction of circulation in strict accordance with the bullion, would be to keep the fluctuations of the bullion within comparatively small limits both as to amount and length of continuance; and in proportion as those fluctuations are rendered short in their continuance and of slight amount, their pressure upon the Money-market and trade, it is fair to conclude, would be light.

5. Had the aggregate circulation been steadily contracted in correspondence with the bullion, from the maximum period of both (in September, 1833), is there not the fairest and most reasonable ground to conclude, that such timely and steady contraction would have been gradual and easy in its effects—that, commencing before any feeling of alarm had arisen, it would have worked more easily and not less effectually; and that by putting an earlier restraint upon the efflux of bullion, it would have kept that action within smaller limits, and thus probably have obviated a large part of the pressure of 1837? Compare such supposed contraction of the aggregate circulation with what really took place.

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	Bullion.	Bank Circulation.	Aggregate Circulation.	Country Issues.
1833.	£	£	£	£
September	11,078,000	19,780,000	29,932,000	10,152,000
1834.				
March	9,829,000	18,700,000	28,891,000	10,191,000
June	8,645,000	18,922,000	29,440,000	10,518,000
September	7,693,000	19,126,000	29,280,000	10,154,000
December	6,720,000	18,304,000	28,963,000	10,659,000
1835.				
March	6,536,000	18,311,000	28,731,000	10,420,000
June	6,150,000	18,460,000	29,399,000	10,939,000

Here is a period of two years, during which the bullion suffers a continuous and heavy drain, being diminished £4,928,000. The Bank circulation is diminished £1,320,000, being a decrease in proportion to that of the bullion of little more than twenty-five per cent.; and that decrease occurring very irregularly; not in the steady and uninterrupted manner in which the bullion decreases. The aggregate circulation is diminished only £533,000— or about eleven per cent. upon the decrease of the bullion; and this decrease again occurred very irregularly.

The country issues increased £787,000 being an *increase* in the proportion of about one-sixth to the *decrease* of the bullion.

This course of things terminated in the pressure and difficulties of 1837. What would have been the effect of a different course? Had the Bank and Country Issues been both contracted, in such manner that the aggregate circulation should in its fluctuations have followed the bullion; the *certain and undeniable* effects would have been, a contraction of circulation commencing early, proceeding gently and equably, acting during a period when

there was no alarm or apprehension respecting the state of the bullion or of trade, and producing a gradual, moderate, but continuous restraint upon confidence, rate of interest, and speculation, before they had reached the extent to which they were permitted to go.

The *probable*, if not certain, effects would have been, a more early stop put to the drain of the bullion; a shorter continuance therefore of the monetary and mercantile pressure; a correction of the evil before alarm had been excited, and the difficulties of internal drain upon the bullion had been added to those of external demand; the corrective action being regular and steady, would have been more effective and less inconvenient than when it is irregular and abrupt; the management of the circulation being conducted under a fixed rule, known to every body, those unreasonable hopes and fears, which an uncertain course of action always produces upon the minds of individuals according to their respective characters, would have been obviated; every person, knowing certainly what was to be expected, and feeling from the beginning a practical warning of it, would have taken their precautionary measures accordingly, in due time and with a steady purpose; thus probably calm, deliberate, and judicious preparation from 1833 to 1836, whilst the bullion decreased from £11,000,000 to £6,000,000 would have obviated the confusion and despair which ensued in 1837; when the alarm, occasioned by a very low state of the bullion, acted abruptly upon an unprepared community. The drain also upon the bullion having been stopped at an earlier stage, the

amount of bullion parted with, and therefore the amount of bullion which it was necessary that we should recover, would have been less; and consequently a less pressure upon the mercantile world would have been requisite for this purpose.

III. The next period of commercial and monetary pressure, principally the latter, occurred in 1839.

Let us now examine the progress of the circulation previous to that crisis.

	Bullion.	Bank Circulation.	Aggregate Circulation.	Country Issues.
1838.	£	£	£	£
March.....	10,015,000	18,600,000	29,526,000	10,926,000
June.....	9,772,000	19,047,000	30,792,000	11,745,000
September.....	9,615,000	19,665,000	31,029,000	11,864,000
December.....	9,362,000	18,469,000	30,694,000	12,225,000
1839.				
March.....	8,106,000	18,298,000	30,557,000	12,259,000
June.....	4,344,000	18,101,000	30,376,000	12,275,000
September.....	2,816,000	17,960,000	29,044,000	11,084,000

The bullion was at its *maximum* in March 1838, and continued to *decrease* steadily from that time.

The Bank circulation and the aggregate circulation continued to *increase* largely till September.

The country issues continued to *increase* largely till June, 1839; and it is remarkable that they were at their *minimum* point when the bullion was at its *maximum* (March 1838) and they *advanced* to their *maximum* point whilst the bullion was undergoing a *decrease* of *sixty per cent.* (June, 1839).

In the following three months (June to September,

1839) whilst the bullion sustained a great further decrease, to an alarmingly low point, the country issues at last began to decrease and rapidly—whilst the Bank circulation during this period remained almost undiminished.

But the most important consideration connected with this period arises from a comparison of the fluctuations of the aggregate circulation with those of the bullion.

Whilst the bullion is *reduced*, uninterruptedly, from 10,000,000 to 2,800,000, that is, *seventy-two per cent.* ;

The aggregate circulation is *reduced*, very irregularly, less than £500,000, i. e., under *two per cent.*

Even that reduction is effected only in the last quarter. From March, 1838, to June, 1839, the aggregate circulation is *increased* £850,000, or nearly *three per cent.* whilst the bullion is *diminished* £5,660,000, or nearly *sixty per cent.*

Under these circumstances can it be a matter of any surprise that the bullion was nearly exhausted? What was to stop the drain? Clearly not reduction of the circulation; for that was increased.

If it be said that the drain was to be stopped by paying away bullion until the demand for it was satisfied; we must first ask, what security the country could have, that any given amount of bullion would be sufficient for that indefinite purpose? And second, by what process, but that of contraction and pressure, is the bullion so paid away to be recovered?

Is it not better, then, by early contraction to put some restraint upon the drain, and thus prevent the

efflux of a portion of the bullion ; rather than incur the risk of a total exhaustion of the bullion, and the subsequent necessity of submitting to the heavy pressure which must necessarily attend the measures requisite for recovering back so large an amount? By this means the additional evils are avoided, of general alarm, want of confidence in the safety of our monetary system, *internal* drain of gold, further pressure on the exchanges by sale of English bills by foreign holders, prolongation of the period of pressure, &c.

But what was it which in reality did put a stop to the drain?

The Bank circulation underwent no diminution of any consequence ; and the decrease of country issues in the last quarter cannot be considered as an efficient cause, it was rather an effect.

The drain was stopped by the prevalence of general apprehension and alarm, which checked confidence and credit, and rendered a given amount of circulation less efficient. This alarm arose from a knowledge of the exhausted state of the bullion, and of the heavy drain still in operation ; which it might be expected would necessitate some extraordinary and very severe measure on the part of the Bank.

Without this knowledge of the state of the bullion, it is not unreasonable to believe, that the public mind would have remained in a state by which credit and the efficiency of the circulation would have been unaffected ; and the amount of the circulation being also undiminished, the drain of the bullion would have continued

until the stock was absolutely exhausted. Hence we see the importance,

First, Of the publication of the accounts of the Bank, from which many persons apprehended the greatest danger. It is to the knowledge which the public derives from them, that we owe, in a great degree, the preservation of our monetary system during the year 1839.

Second, Of the one measure by which the Bank of England effectually contributed to check the efflux of bullion, viz., raising the rate of interest; because by this act she gave warning, though too tardily, to the public, and strengthened and confirmed that alarm which had become necessary for our preservation. We thus see the value of this measure, which some persons have most strangely represented as having been wholly inefficacious; and also the policy of that change in the law which has admitted of such a step.

It is sometimes said that a rise in the rate of interest is inefficacious, because it is often followed by an increased demand on the Bank for discounts. The answer to this is—First, that the demand would probably be greater if the rate were not raised. Second, and especially, that the measure tends to produce a contractive effect upon the country circulation, and still more on the state of confidence and of the auxiliary currency which rests upon that confidence.

Third, We may clearly deduce from these events, the probable inefficiency of any plan for enabling the Bank to soften or postpone the contraction of circulation as the bullion diminishes.

The drain must either be stopped gradually by an early and timely contraction of circulation, or it will in the last stage be stopped by alarm approaching to panic on the part of the public.

The *advantage* attending the first course is, that the restrictive action is early, gradual, founded upon principle, certain in its effect, always under control, its nature and its extent known to everybody.

The *evil* attending the latter course is, that it is late ; that instead of preceding and preventing, it springs out of, alarm ; that it is uncertain in the extent of its action and under no control ; that it acts upon an evil grown more extensive and strong from longer duration, and therefore requiring more severe pressure to correct it ; that in the very act of restraining the foreign drain, it incurs the hazard of creating an *internal* drain from alarm, and also an uneasy feeling on the part of foreign holders of English bills of exchange, which induces them to withdraw their investment from these securities, and thus produces a further derangement in the state of the exchanges.

Suppose that, during 1838, the aggregate circulation, instead of increasing largely, had been diminished in correspondence with the bullion, and consequently had stood in December, 1838, at £28,873,000 instead of £30,694,000, at which we find it at that time ; is it possible to doubt that we should have been better prepared to face the monetary difficulties of 1839, or that those difficulties would by this means have been materially diminished in their severity ?

Such contraction occurring in 1838 would have produced none but easy, salutary, and even acceptable restraint. The expansion which occurred instead of it, we can hardly doubt, laid the ground for greater subsequent mischief; and the public alarm which occurred in 1839, from the absence of contraction in 1838, produced greater pressure upon the money-market with much less certain protection to our specie payments.

IV. From this review of the progress of the circulation in connection with the two monetary crises of 1837 and 1839, it is scarcely possible to doubt, that those crises were intimately connected with mismanagement of the circulation; and that a large portion of the intensity which characterized them, is attributable to the non-contraction of the aggregate paper circulation of the country in correspondence with the decrease of the bullion *in its early stages*.

We have the authority of Mr. Tooke in his History of Prices, vol. iii. p. 90,* that “earlier measures of con-

* “Credit, indeed, is taken by the Bank of England, for having, although at the risk of suspension, preserved the commerce of the country from the injury to it which might have resulted from earlier and more effectual measures for the contraction of the circulation. But there is every reason to believe, that *earlier measures for contraction*, on the part of the Bank, would have *obviated the necessity for more stringent ones* later, and that the commerce of the country would now be in a *more satisfactory position* if the *proper legitimate measures for regulating the exchanges* had been sooner adopted.”—*Tooke's History of Prices*, vol. iii. p. 90.

traction would have obviated the necessity for more stringent ones later."

We have further the same authority that the drains of 1782-3 and of 1795-6 were surmounted and the exchanges effectually stopped by a resolute and extraordinary degree of contraction of the circulation; though they arose from payments for foreign corn, support of troops, subsidies, &c.—p. 71.

We have also the same authority for the necessity of strictly maintaining paper upon a level with the value of gold. "It is the business of a Bank that administers a paper currency in exchange for gold, or in lieu of gold, to have no other end in view than that of preserving its paper *strictly, correctly, and invariably* upon a level with the value of gold."—*Tooke's Evidence*, 1832, *Qu.* 3830.

"I agree with him (Mr. Mushet) in the general rules which he would have proposed for the management of the circulation of paper by the Bank of England; he considered, as I do, that when there was a drain upon its coffers, *it should suppress the paper in proportion as it was called upon for the gold.*"—*Ibid.* *Qu.* 3844.

Upon the two recent occasions we have had no such 'resolute contraction of the circulation,' and consequently, though there have been no foreign subsidies to provide for, we have had imminent danger to our monetary system.

But have we avoided the other evil, pressure upon the money-market and upon trade? Undoubtedly we have not.

In the management of the circulation we have forborne to contract, upon the commencement of a drain upon the bullion, and we have vacillated in our action throughout. The consequence has been the usual result of such conduct; we have lost the advantages and incurred the evils of both courses; we have suffered heavy pressure, and we have not avoided imminent danger to our specie payments.

It is not denied nor doubted by any person that contraction of the circulation in strict accordance with the decrease of the bullion would effectually protect the bullion from exhaustion. But it is contended, that such correspondence of fluctuation, strictly enforced, would produce more sudden and violent changes in the state of the money-market and of credit than occur under the present system.

“Although over-banking and over-trading might not, under a rigid metallic variation, proceed so far as they might in the case of an accompanying increase of paper-money, the transition to a state of discredit, although perhaps, but not certainly, within a shorter range in point of time, would in some instances be more severe; that is, the transition from a low to a high rate of interest might be more abrupt, and to a higher rate, and consequently a revulsion of credit, if there had been previous over-trading, would be more sudden and more severely felt.”—*Tooke*, p. 179.

“The grounds which I have ventured to suggest for hesitation as to the policy of adopting the separation of departments, is the question, whether there are not

considerations of the *greater convenience* attending the working of the present *less scientific* system.”—p. 252.

“The more anomalous but more *accommodating system*, which by the union of circulation and deposits allows the action of the foreign exchanges to operate upon the bullion in such a manner as that, if the amount of it be of sufficient magnitude, the *money-market* may be *little* if at all *disturbed*.”—p. 252.

The grounds upon which it may be doubted whether greater occasional revulsions of credit would arise from separation of the departments, have been stated in the preceding remarks; those who read them must form their own judgment on that point.

It is however satisfactory to be able to find, in the same work, from which the foregoing passages are quoted, some consolation under severe action upon the rate of interest and the state of credit, should such occur; and it is also a little curious to measure the value of those considerations of *greater convenience* attending the working of the present less scientific but more *accommodating* system, by principles which are laid down in the same work.

“There were periods, indeed, even during the restriction on cash payments, when a rate of discount by the Bank of eight or ten per cent. would have been considered preferable to some of the limitations which then prevailed; and among others, the length of the bills being confined to sixty-one days, instead of the present limit of ninety-five days. At the same time, *I am not at all prepared to say that there are not some advantages attending this more severe mode of limitation.*

“In an ambitious and enterprising commercial community, among whom there is generally a *tendency to outrun the due bounds of credit*, inevitably leading to a reaction, it is *desirable* to hold out a constant memento against the risks of over-trading; and this is *most effectually done* by the occasional recurrence of periods in which there is a *difficulty*, or at least a *diminished facility*, in *realizing the best securities*.”—p. 138.

“The claims of the public require that the due regulation of the currency should not be made subservient to considerations of partial convenience to particular branches of the trading community. I say partial convenience to particular branches, because it cannot be too often repeated that an *interference with the due regulation of the currency can never be for the general benefit of trade*.”—p. 137.

“There is reason to believe that the trade and manufactures of the country would be generally in a sounder state if they depended less upon what is called banking accommodation; and that they have been more *injured than benefited* on every occasion in which (except 1825) the Bank has departed from its own supposed rule of *regulating its issues by the exchanges*, in order, as alleged, to *prevent inconvenience*, or *discredit to the commerce of the country*.”—p. 113.*

V. The revulsion of 1837 was the consequence of a

* “Do you conceive that a SUDDEN fall of prices is productive of less distress than a gradual fall of prices?—I am not quite clear on this point. I know, however, many instances in which persons have

long preceding period of prosperity, which had generated excessive credit, over-trading, and over-banking.

These effects were exhibited more particularly in excessive credits given to the United States, in the negotiation in this market of American, Dutch, and other foreign securities to a great amount, in the rapid and excessive expansion of Joint-Stock Banking in this country, and excessive credits given by them.

From 1833 to 1836 there were established in England 72 Joint-Stock Banks, in Ireland 13 ditto.—*See H. Palmer on Causes, &c. p. 10.*

Had the bullion been strictly followed as a guide in regulating the amount of the paper circulation, the check to this course of things would have been applied at an early period, in September, 1833, and would have been kept in steady operation until the rectification had been effected.

But under our present more “convenient and accommodating” system, the aggregate paper circulation was kept been ruined by a gradual fall of prices, who would have been safe if it had been a sudden one ; nothing is more injurious to parties who continue to hold than a long protracted fall.

“Is it your opinion that if the fall in prices is equal in amount, it is *less detrimental* to commerce that it should take place *at once* than that it should take place gradually ?—In a very large proportion of cases I should say it is better that it should take place immediately ; there never is, in any particular article of any trade, a sound state till the impression has become perfectly general and confident in all classes of consumers that the price has seen its lowest ; every body knows, who has any experience in trade, that the moment such impression prevails there is an end of distress among the persons concerned in that particular article.—*Tooke's Evidence, 1832, Qu. 3882-3.*

at its full amount during a heavy drain of bullion from September 1833 till 1837 ; no attempt to check that drain was made through the medium of management of the circulation :—

The result was the crisis of 1837.

The next crisis, i.e. the drain upon the bullion in 1839 was the result of several circumstances :—

1. Large importation of foreign corn.
2. Large importation of American securities.
3. Large mercantile credits given to America.
4. Peculiar state of credit in France and Belgium.
5. Peculiar circumstances connected with the cotton speculation.

“The importation of the raw cotton had been principally paid for by advances which the consignees on this side obtained upon it.”—*Tooke*, p. 74.

Here, again, had the management of the circulation followed the indications of the bullion, the check to the importation of foreign securities, to the excessive mercantile credits, and to the advances made to the consignees of cotton, would have been applied *early* in 1838.

Under the present system, however, the aggregate circulation continued to increase in the face of diminishing bullion, and was higher in June, 1839, than in March, 1838.

The result was the exhausted state of the bullion, and the general alarm of the autumn of 1839.

Can it be doubted, that by applying contraction of circulation simultaneously with contraction of bullion, at the commencement of 1838, the evil would have been

arrested at an early period, and, in that case, could never have reached the height to which it attained under the opposite course of procedure?

The case appears to have been the same with respect to the convulsion of 1825.

	Bullion.	Bank Circulation.
1824.	£	£
February.....	13,810,000	19,786,000
August.....	11,787,000	20,182,000
1825.		
February.....	8,779,000	20,753,000
August.....	8,634,000	19,398,000

The returns of the country issues during this period are not given, but it is beyond all doubt that they underwent a very large increase.*

Here, again, is a crisis preceded by a long continued *decrease* of bullion and a large *increase* of paper circulation. The panic of 1825 was the result of this course;

* Mr. Tooke, in his pamphlet of 1826 (p. 39), estimates this increase to have been between six and seven millions. This probably is an exaggerated estimate.

Lord Liverpool, in his speech, February 17, 1826, states the country circulation to have been,

1823.....	£4,000,000
1824.....	6,000,000
1825.....	8,000,000

Mr. Burgess, in his evidence, (1832) qu. 5165, states that "the circulation of country Bankers was at the lowest in the year 1823, and the highest in the year 1825," although he estimates the increase at only 16 per cent. From these conflicting estimates it is sufficiently evident that the country circulation increased largely during the period in question, but that the amount of the increase cannot be exactly ascertained.

but had the circulation been contracted with the bullion from the beginning of 1824, can any person entertain a doubt, that the revulsion of credit in the latter part of 1825 would have been infinitely less sudden and less severely felt?

It ought to be observed, with respect to the above statements, that, during 1834, 5, 6, contracts were successively entered into for the substitution of Bank of England notes for those of private issuers; and allowance therefore, increasing the country issues and diminishing the Bank issues *pro tanto*, ought to be made.—See *Norman's Remarks*, p. 78.

To the aggregate circulation of the Bank of England issues and the country issues, those of Scotland and Ireland ought to be added. But unfortunately we are without the means of ascertaining the amount of them.

We learn, however, from a statement given in Mr. Norman's "Remarks," (p. 77,) that the paper circulation of Ireland *increased* from December, 1833, to December, 1836, a period of continuous and heavy *decrease* of bullion.

Circulation of Ireland, Dec. 1833,	£5,081,000
Ditto, Dec. 1836,	5,864,000
Increase.....	<u>£783,000</u>

Of the fluctuations of the Scotch issues we have no means of obtaining any knowledge.

VI. By the statements, however, which are before us, the following facts are established beyond the possibility of question :—

1. That both the convulsions of 1837 and 1839 were preceded by a long-continued drain of bullion, lasting, in the first instance, three years, with a slight interruption; in the second, eighteen months; and, in both cases, commencing slowly, and acquiring increased rapidity and violence as it advanced.
2. That in both cases the drain of bullion was met by an increase of the Country Issues and of the aggregate paper circulation of England; whilst the Bank circulation fluctuated very irregularly, and in each case stood as high when the bullion was reduced to a low point, as it did when the bullion was at its maximum.
3. That in both cases the crisis was preceded by a remarkable advance of the country issues from a minimum to a maximum amount during the drain of bullion.
4. That so far as we have any means of forming a judgment of the Irish paper circulation, we are led to conclude that its action was of a similar character to that of the paper circulation in England.
5. That there exists no reason for supposing that the Scotch circulation differed in this respect from that of England and Ireland.
6. That this conflicting action of decrease of bullion with increase of circulation was, in both cases, followed by a crisis characterised by danger to our monetary system, extensive destruction of credit, and a state of general pressure and alarm.*

* Mr. Hawes, in his speech against the second reading of the Bill, which he has since published, asserts, in the most unqualified

With those events let us now contrast another period, during which *a decrease of bullion is accompanied by a decrease of circulation corresponding steadily*

manner, that "no tangible proof whatever has been adduced of an excess of issues, or of a depreciation of the paper circulation; nor has any injurious result been traced to the operation of the present system which can be shewn to be within the reach of legislation, or which may not be more safely left to be corrected by the results of increased intelligence and experience." I submit to his consideration the monetary events preceding, and connected with, the crises of 1825, 1837, and 1839. A careful investigation of these, I think, must lead a candid mind, really seeking the truth, to qualify, if not indeed altogether to abandon, the above assertion.

I may avail myself of this opportunity to remark that the same speech (p. 19 to 23) evinces a most extraordinary misconception of the true meaning of the rule which requires "the aggregate circulation of the country to conform to the fluctuations of the bullion," and of the results which would arise under the application of that rule. The advocates of this principle contend, that the aggregate circulation should sustain an increase or decrease of amount, equal to the increase or decrease of the amount of the bullion; and to produce this result, or something very nearly approaching it, is the object of the present Bill. But Mr. Hawes interprets the rule as requiring, that the increase or decrease of the aggregate circulation shall be, not equal to the increase or decrease of the bullion, but that it shall be in the proportion which the total amount of the circulation bears to the amount of the bullion. From this misconception Mr. Hawes deduces consequences, and charges them upon the advocates of the rule in question, which, however, they utterly repudiate; because such results are altogether inconsistent with the principles of their reasoning, and will not arise under a correct application of the rule for which they contend, nor under the provisions of the Bill against which the speech in question is directed.

with the bullion in its progress, though not to an equal amount.

	Bullion.	Bank Circulation.
1830.	£	£
August.....	11,150,000	21,464,000
1831.		
February.....	8,217,000	19,600,000
August.....	6,439,000	18,533,000
1832.		
February.....	5,293,000	18,051,000*

On this occasion the drain upon the bullion does not, as in all the other cases, terminate in a crisis.

“ Although during this period the bullion in the Bank was diminished from twelve millions to five millions, yet, in the progress of this reduction, as there was no excitement, and no undue credit given by the banks in the interior of the country, the interest of money *gradually* rose from two-and-a-half to four per cent.; and then *without discredit or distrust of any kind*, the bullion returned into the coffers of the Bank, and money nearly resumed its former value.”—*Horsley Palmer on Causes, &c.* p. 6.

In this case it is not improbable that a complete statement of the paper circulation of the whole kingdom would show a fluctuation of amount very nearly approaching to a strict correspondence with the bullion.

It is very much to be regretted that we have not the data from which to form such a table.

* See Appendix, No. 28, to Report from Select Committee on Banks of Issue, 1840.

Enough, however, has been stated to establish this very remarkable fact,

That in three out of the four occasions on which the bullion has sustained a very heavy drain, since the resumption of cash payments in 1819, the paper circulation has been increased rather than diminished; and these have all terminated in severe pressure upon credit and trade, viz. in 1825, 1837, 1839. Whilst in the remaining case, the drain of bullion was met, from the commencement, by a corresponding decrease of paper circulation, and this passed off *without discredit or distrust of any kind*.

VII. Upon a due consideration of these facts, the public is called upon to come to a decision upon two questions of the utmost importance.

First, Whether, under the existing system of paper issues, the fluctuations of the amount of the paper circulation of the kingdom can be properly regulated.

Second, Whether a separation of the function of issue from that of banking, and a consequent regulation of the amount of the paper issues in accordance with the fluctuations of the bullion, would augment or diminish the intensity and extent of those fluctuations, as well as tend to secure greater or less steadiness to the state of confidence and credit, and greater or less security to our monetary system.

Of the practical difficulties which may attend the attempt to carry on the separated departments under the superintendence of the same body, those only who have

had experience in the management of the Bank can form a competent judgment.

The principle, however, of making the fluctuations of the paper issues conform to those of the bullion seems to be essential to the good management of the circulation; and without a separation between the currency and banking departments this principle can hardly be carried out with effect.

To form a just judgment of the manner in which the regulation of the paper circulation in accordance with the bullion would work; the principle must be supposed to be applied, not in the advanced stage of the drain of bullion, but in its commencement; before excessive confidence and credit have continued long enough to work their full measure of mischief; before the drain has become rapid in its progress or has materially diminished the stock of bullion; and before a knowledge of these circumstances has produced alarm and apprehension upon the public mind. It is upon this *early* application of the principle, and the *steady* adherence to it from the outset, that the safety and efficacy of its action depends. If by procrastination at the outset, we once part company from principle, the attempt at a subsequent stage to commence a strict adherence to it may no doubt be found difficult, and not free from danger.

Hence arises the importance, and, indeed, the necessity, of applying the principle, if at all, to the whole paper circulation of the kingdom, and not to that of the Bank of England alone. If the contraction of the issues of the Bank be met, even temporarily, by an expansion

of the issues of other parties, the amount of the aggregate paper circulation may be kept up during the first stages of the drain upon the bullion; and the critical opportunity, at which alone the principle can be brought into operation with perfect confidence, may be lost.

VIII. One difficulty has been suggested as liable to attend the plan of a strict regulation of the paper circulation in accordance with the bullion, which deserves attention. In this country an immense mass of liabilities exist which are subject to be paid on demand, and if, in consequence of panic or any other cause influencing a great number of persons simultaneously, the payment of a large portion of these liabilities should be demanded at the same time, either the circulation must be largely increased, or the parties liable to such demands must be seriously embarrassed.

Upon this point it may be remarked—

1. That such panics, as are supposed in this case, have usually, if not invariably, originated in a bad state of the paper circulation; and that a regulation which shall secure a perfectly safe and sound system of paper circulation, will by so doing greatly reduce the probability of the occurrence of such a panic.

2. That some loose habits of business and unguarded forms of obligation have become prevalent, in consequence of the 'accommodating' nature of our paper circulation; and that probably all parties would be rather benefited than injured, by an increased degree of care and strictness on these points. Institutions to receive

the deposits of small capitalists and allow an interest upon them are no doubt highly convenient and beneficial to the public; but it admits of very reasonable doubt, whether it is a safe or an expedient system, to prevail throughout a country, of holding those deposits to an immense amount, payable, not on moderate notice, but immediately on demand; an obligation which, if the demand be made by the mass of depositors simultaneously, it would obviously be impossible to fulfil.

A little more strictness in the management of our paper circulation might probably lead to some more prudent regulations on this subject; a change which might be effected with no inconvenience, and by which probably all parties would in the end be benefited.

3. That the difficulty under consideration is not created by the substitution of a paper for a metallic currency—it is not a difficulty peculiar to a paper currency, but would equally exist with a metallic circulation.

4. That in other matters we are habitually and daily incurring a similar danger; without, however, deeming such liability to constitute a sufficient objection to the system which necessarily involves it. For example—the use of a paper currency, convertible but not represented by an equal amount of gold in deposit, necessarily involves the danger, arising from panic or political causes, and not from a real depreciation in the value of the paper currency, of a sudden demand for gold in exchange for all the notes; which, of course, could not be met on the moment.

The proper reserve of bullion is usually considered as one-third of the Bank of England circulation, which is itself about one-half of the paper circulation of the kingdom. Consequently the bullion seldom, even at an ordinarily full period, exceeds one-sixth of the paper circulation. Should panic or any other cause produce the simultaneous presentation of a large proportion of this paper circulation for gold, the demand could not be met.

Take again the case of the Savings' Banks. The Government has subjected itself to a simultaneous demand to the extent of the deposits in these banks, fifteen or sixteen millions. What would be the effect of such a demand should it occur?

5. If, after all, the danger is deemed to be of such a nature as to require an efficient provision against it—this is to be found, not in a general abandonment of the attempt to place the management of the circulation under some fixed principle; but in that power, which all Governments must necessarily possess, of exercising special interference in cases of unforeseen emergency and great state necessity.

“The consequences of sudden alarm cannot be measured. They baffle all ordinary calculation. Cash is then withdrawn, not because the circulation is excessive, but by the country banks and the town bankers, for the purpose of meeting possible demands upon them, and by the community at large, either directly from the Bank, or indirectly through the former channels, for the purpose of hoarding, from the dread of some imaginary or contingent

danger. In such a crisis, every reduction in the amount of Bank paper is so far from checking the drain, that it aggravates the general distress; because the gold which is taken out of the Bank, instead of being substituted in circulation for the notes withdrawn from it, is for the most part locked up, and thus, in proportion as the stagnant and straitened circulation wants life and aid, it becomes every day more embarrassed, whilst each new calamity produced by such a state of things, contributes to spread and increase the general apprehension. It is therefore manifest, that by a possible combination of circumstances, the Bank might be driven to part with its last guinea, not only without having checked the drain, but with the certainty of increasing it, in proportion as the amount of their notes was diminished. At such a moment, the preservation of the Bank from actual failure, though an important, is but a secondary consideration:—that of the country is the first. *The possible cases, however, which may call for such an intervention of power, are not capable of being foreseen or defined by law. The necessity may not occur again; if it should, the application of the remedy must be left to those who may then be at the head of affairs subject to their own responsibility and to the judgment of Parliament.*”—Huskisson, p. 147.*

* These remarks of Mr. Huskisson furnish the true answer to the Memorial of some of the London Bankers, in which they urged the introduction of a special clause to facilitate the suspension of the operation of the Bill in periods of peculiar pressure on the money-market. To accede to such a request would be virtually to destroy the efficacy of the measure. The commencement of a drain

of bullion, and consequently of pressure on the money-market, is the period at which the provisions of the Bill become practically important ; and unless they are then strictly adhered to, the whole measure becomes a nullity. A general conviction that they will not be suspended on such occasions is essential, for producing throughout the community that cautious forethought and that healthy tone of self-reliance, upon which the safety and utility of the measure must materially depend. Any special provision, introduced into the Bill itself, for suspending its application at critical periods, must prove mischievous, by weakening the conviction that the measure will be adhered to, and thus checking the growth of the feelings and habits which are intimately connected with its success. For all contingencies which can be reasonably anticipated, and which are susceptible of being previously defined by law, the firm application of the provisions of the Bill is essential ; and against the occurrence of those contingencies, which are not capable of being foreseen or defined by law, but which are not altogether impossible, the Bill itself affords the best protection which can be obtained. Should a crisis ever arrive " baffling all ordinary calculation," and not amenable to the application of any ordinary principle,—a crisis involving the exhaustion of the bullion, but ' not because the circulation is excessive," the remedy must be sought, not in the previous provisions of the law, but in the discretion of " those who may then be at the head of affairs, subject to their own responsibility and to the judgment of Parliament."

THE END.

THE PETITION
OF THE
MERCHANTS, BANKERS,
AND
TRADERS OF LONDON,
AGAINST THE BANK CHARTER ACT;

With Comments on each Clause.

By Samuel Jones Lloyd, and Robert Loxton

LONDON.

1847.

TO THE HONOURABLE THE COMMONS OF THE UNITED
KINGDOM, IN PARLIAMENT ASSEMBLED.

*The humble Petition of the undersigned Merchants,
Bankers, and Traders, of London.*

Showeth,

1. That there has lately been apparent throughout the commercial and manufacturing community of this country an extent of monetary pressure, such as is without precedent in the memory of the oldest living merchant.

The petitioners commence their prayer with a statement contrary to fact. The panic of 1825, the innumerable failures of provincial bankers under the former law, and the threatened insolvency of the Bank of England in 1839, are unconsciously or conveniently overlooked, when they venture to affirm that the extent of the recent monetary pressure is without an example in the memory of the oldest living merchant. It is not very easy to fix upon any positive standard of the extent or severity of monetary pressure. That which is present is naturally overrated, in comparison with that which is past and comparatively forgotten. The rate of interest allowed by brokers upon money held at call may be taken as a fair test of the

extent of monetary pressure. The rate allowed by them on the present occasion, to which the petition refers, has not exceeded $4\frac{1}{2}$ per cent. The same rate ($4\frac{1}{2}$ per cent.) was allowed by them in 1836; and in the monetary pressure of 1839, the rate allowed by them rose to 5 per cent. Again, it is surely very extraordinary, that during a state of monetary pressure, the extent of which is stated to be without precedent in the memory of the oldest living merchant, the state of the revenue should continue to improve. Notwithstanding the high price of food, there has been a steady increase of the revenue on all those items which indicate the state of trade, the command of comforts or the progress of wealth. Is this reconcilable with the unparalleled extent of pressure described in the Petition?

It may be further observed, that the causes of pressure upon the monetary and upon all other interests, arising from circumstances not under the control of any legislative action, on the recent occasion have also been of an extent which is almost without precedent.

2. That this pressure has manifested itself in the fact of the suspension of the ordinary facilities of business—such as the discounting legitimate commercial bills of unquestionable credit and solvency, and the withholding other ordinary monetary accommodation.

Had a pressure such as is here described occurred under the former law, the drain of bullion would have been accompanied, as on former occasions, by the aggravated evils of domestic panic, a run for gold, the failure of

private and joint-stock banks of issue, and the immediate danger, if not the actual occurrence, of a suspension of cash payments by the Bank of England. That a monetary pressure such as that which was really experienced last April—and especially a pressure of such severity as the Petition describes—could have been induced without causing a run upon the banks, and endangering the convertibility of the circulation, is a practical demonstration of the safe and beneficial working of the Act of 1844.

3. That this pressure has come upon the commercial body at a time when there has been no undue extension of the ordinary commerce of the country, nor any spirit of speculation or overtrading afloat, so far as the trading interest is concerned.

Do the petitioners mean to affirm that the trading interest had no concern in the spirit of speculation, or overtrading, afloat during the railway excitement? Are they prepared to show, that merchants, and bank directors and manufacturers, did not withdraw capital from the ordinary channels of trade, in order to invest it in railway undertakings, and to speculate in railway shares? But pressure may undoubtedly be brought upon the community by the act of Providence withholding its usual supplies of food, although there may have been no undue extension of the commerce of the country, and the trading world may not be justly chargeable with over-speculation.

4. That the deficient harvest of last year occasioned the withdrawal from the Bank of England of a con-

siderable portion of its bullion, to pay for imports of food from foreign parts.

The only statement really consistent with a correct view of facts contained in the petition.

5. That in former periods of the like visitation, the Bank of England has had the power, and has safely used it, of continuing facilities to commerce during the temporary pressure arising from a large and sudden importation of food from foreign countries, until the balance of trade should be restored by the ordinary course of commercial pursuits.

A statement directly contrary to recorded facts. On the former occasions of a drain of bullion, whether arising from an extraordinary importation of corn, or other cause, the bank *unsafely* used its power of continuing facilities to commerce, by maintaining an undiminished circulation in the face of an adverse exchange. In 1825, 1836, and 1839, the Bank, in endeavouring to continue facilities to commerce until the balance of trade should be restored by the ordinary course of commercial pursuits, aggravated the evils it sought to abate. The abrupt and violent contraction of accommodation to which self-preservation ultimately compelled it to resort, proved far more injurious than a timely and gradual limitation of the circulation and of discounts could have been.

6. That to suppose that by any monetary regulation it should be practicable to produce an increased demand for British exports, simultaneously with the necessity for British imports of grain, so that the one may be at

the moment available in payment for the other, is at variance with the course of all mercantile experience.

This truism conveys a false impression. The advocates of the Act of 1844 never supposed that monetary regulations could, *at the moment*, cause exports to balance imports. But that an adverse state of the exchanges may be corrected, and a violent drain of bullion be promptly and effectually stopped by a rise in the value of money, is abundantly proved by the occurrences of last April, Whilst the exchanges were strongly against this country, the bullion rapidly diminishing, and preparations made for the export of gold in large amounts to the United States, a sudden panic sprung up in the money market, and the value of money was greatly increased. The result was, an *immediate* correction of the exchanges—the drain of bullion at once ceased—the gold actually shipped for America was relanded—policies upon further shipments were cancelled—and the bullion previously sent to the Continent of Europe began forthwith to return to this country. These circumstances prove conclusively that monetary regulations may be made a most effectual means of controlling a drain of bullion.

7. That it is in the nature of mercantile dealings, when duly supported, to rectify, within a reasonable time, any temporary inequality which temporarily disturbing causes may produce; on which account it is essential that the power of giving temporary aid, if called for by the mercantile body at such periods of emergency, should exist.

When temporarily disturbing causes turn the balance of foreign payments against us, the only possible way in which the natural course of mercantile dealings can rectify the inequality is by a diminution of imports, or by an increase of exports. But imports cannot be diminished, nor exports increased, unless there should be a decline of prices, and a decline of prices cannot occur while the mercantile dealings of merchants, manufacturers, and traders, continue to be aided by undiminished accommodation. The immense amount of our credit transactions consists of promises to pay specified sums in convertible currency: to secure the convertibility of the currency, a due reserve of treasure must be held by the Bank. When an adverse exchange has set in, the drain cannot be arrested, nor a due amount of treasure be retained by the Bank, until a temporary pressure upon the money market shall have so acted, first on the value of money, and, if necessary, on the prices of commodities, as to cause our exports, first to equal, and then to exceed, our imports. The temporary pressure upon the money market is not only the necessary consequence of an adverse exchange, but the necessary process through which the adverse exchange can be turned, and the convertibility of the currency secured. When the manufacturing interests, in their ignorant impatience under the temporary pressure caused by the drain of bullion, pray that commerce may be supported by allowing the Bank to extend its issues, and to afford undiminished credit—they pray for that, the granting of which would now, as heretofore, endanger the stability of the Bank, and the vast superstructure of commercial

credit, of which a convertible currency is the base; "on which account it is essential that the power of giving temporary aid, if called for by the mercantile body at such periods of emergency, should" *not* "exist."

8. That it has recently become apparent, that the Bank of England is restrained by legislative enactment from giving such facility, if called for.

The Act of 1844 does not impose any direct restrictions whatever upon the banking operations of the Bank of England, but leaves the Directors at perfect liberty to give to the mercantile interest all the facilities, in the way of discount and credit, which the capital at their disposal may enable them to accord. Nor does the Act diminish by any indirect operation the amount of accommodation obtainable from the Bank. On the contrary, the indirect operation of the Act tends to increase the amount of the facilities which can be afforded to commerce. When the Bank, under the former law, exercised the pernicious power of keeping up an undiminished circulation in the face of an adverse exchange, the drain of treasure was prolonged until the approach of danger compelled the directors, not only to arrest the drain by a sudden and violent contraction, but to keep the screw on for a period sufficiently protracted to allow the turn of the foreign exchanges to restore to their exhausted coffers a safe amount of treasure. Under these aggravated oscillations the average amounts of the circulation, of discounts, and of credits were probably less than they would have been under the more uniform action of the existing law.

9. That that establishment has been compelled, by the operation of the existing law, to refuse discounting commercial bills of the first credit, having not more than three months to run.

It was not the existing law, but their own reckless disregard of the rules of legitimate banking, which compelled the Directors to refuse, or rather to restrain, discounting bills of first-rate credit. Instead of diminishing their securities as their deposits were withdrawn, so as to maintain a due proportion between their reserve and their liabilities they continued their advances at a low rate of interest until, on the 17th of April, their available reserve, against liabilities amounting to £13,900,000, was reduced to £3,000,000. To have continued this course would have been to rush upon insolvency. To protect their establishment, they were compelled to pull up in their reckless career of discounts with a suddenness, which, had not public confidence in the convertibility of the bank note been sustained by the large amount of treasure secured by the Act, would have issued in a run for gold, and in an utter dislocation of commercial credit. Even under these circumstances the Bank still held a very large amount of commercial bills under discount. It is incorrect, therefore, to assert that the Bank refused altogether to discount commercial bills; such was not the fact. The Bank was compelled to put a limit to the extent to which it would discount such bills; and it refused to discount beyond that extent. Is it contended by the petitioners that the Bank ought to discount commercial bills to an unlimited extent under all circumstances,

and that such a system is compatible with the maintenance of specie payments, or of any fixed standard of value?

10. That the fact of such refusal, together with the knowledge of the ground on which it was made, produced such a degree of consternation and disturbance of public confidence throughout the country, that commercial bills could only be discounted at all to a very limited extent, and at rates of interest hitherto unknown in this country.

The public had a very imperfect, and, upon their own showing, the petitioners had no knowledge at all, of the ground upon which discounts were refused. Discounts were refused in April, not because the Act had reduced the amount of bank notes in the hands of the public, but because the Bank, by an undue increase of its securities, had reduced its banking reserve below the amount required to secure the payment of its deposits. A considerable portion of these deposits consisted of the reserve of other banks, placed in its coffers for safe custody. Hence the publication of the dangerous reduction in the reserve of the Bank of England, alarmed all the other banks throughout the country in any way dependent upon the Bank of England, and impelled them to provide against the impending danger, by refusing accommodation to their customers. Thus the bad banking of the Bank of England aggravated in an incalculable degree the monetary pressure, which, if the convertibility of the currency is to be maintained, must ever be the inevitable result of a protracted drain of bullion.

11. That one consequence of this state of things was an immediate suspension of the execution of orders for manufactures for distant markets to the great distress of the manufacturing districts, at the very moment when there was an obvious policy in facilitating exports of British productions.

The high prices of the raw material of our most important manufacture—the absorption in railway speculations of the capital previously applicable to the production of commodities—and the inevitable contraction of the media of exchange which accompanies an unfavourable balance of foreign payments; all concurred in the crippling of industry in the manufacturing districts. The evil was no doubt aggravated by the abrupt refusal of discounts to which the Directors of the Bank of England were compelled to resort, not by the Act of 1844, but by their own imprudent disregard of the rules of legitimate banking. But orders from America for British exports multiplied at once, when the news reached the United States of what had occurred here in April, and its effects were felt.

12. That this suspension continues to the present moment to a large extent, and to the great injury of the manufacturing population.

The suspension of foreign orders for our manufactured goods, exists at the present moment only with regard to those countries which, in consequence of the failure of their crops, have lost their power of purchasing foreign commodities; whilst from those countries which have

recently supplied us largely with provisions—viz. the United States and countries bordering on the Black Sea, there exist at this moment large orders for our manufactures. This is natural and intelligible, and shows most clearly, that variations in the foreign demand for our manufactures depend on circumstances which affect the purchasing power of foreign countries, and not on the internal monetary arrangements of this country. If it be an obvious policy to facilitate the export of British productions, as stated by the petitioners, whatever tends to cause falling prices in this country will directly promote that result. Falling prices must necessarily be accompanied by increasing exports and decreasing imports.

13. That without detailing to your Honourable House all the cases of difficulty, and perplexity, and paralyzation of business, resulting from such a state of things, your petitioners venture broadly to state, that the existing commerce of this country cannot be carried on, if the continuance of the facility of discounting legitimate commercial bills be practically withdrawn.

The discount of commercial bills is the form through which capital is lent to commercial purposes. The extent to which commercial bills may be discountable, depends upon the amount of capital which the community is willing to apply to that purpose. The capital of the country is not susceptible of immediate and indefinite increase, and consequently, if a large proportion of the

capital of the country be applied to some new channel of employment, as the construction of railways, a corresponding decrease must occur in the amount of capital devoted to other channels, such as the discount of commercial bills. Hence has arisen the decrease in the application of loanable capital to commercial purposes, as exhibited in the form of increased difficulty in the discount of bills. This effect has been temporarily increased by that diminution of confidence restraining the free transference of money from hand to hand, which always occurs during an adverse state of the exchanges and a consequent drain of bullion. The increased difficulty in obtaining the discount of commercial bills, much overstated by the petitioners, but which has really occurred to some considerable extent, has arisen from the diversion of capital from commercial to other pursuits, especially railroad speculations; and this has been further increased by the general decrease of confidence which invariably accompanies a period of unfavourable exchanges.

14. Your petitioners can hardly bring to the notice of your Honourable House a more palpable view of the extent of embarrassment recently existing, than in the following plain statement of facts, both occurring in the same week. Remittances of silver arrived from the Pacific in payment for British manufactures. The Bank of England refused either to buy or to lend money on this silver to the merchants who received it, stating that it held the full amount of silver bullion on which by law it was permitted to

issue notes, and that it could take no more. Thus merchants, with silver in their possession, could not obtain bank notes to meet their engagements.

Merchants with silver in their possession might have sold it to Cambists, or might themselves have exported it to the Continent, at a trifling cost, in exchange for gold, and might thus in either case have obtained the means of meeting their engagements. In a country where the standard is gold, silver is a commodity, and must be treated as any other commodity. It may be sold at the market price of the day, or it may be exported. It is not expedient that the Bank should be compelled to make advances on commodities.

15. It further occurred, that a banking establishment at some distance from the metropolis, having an accumulation of silver of the coin of this realm beyond its ordinary need, tendered the same to the Bank of England, to be exchanged for bank notes. The Bank refused to receive it, stating, as in the former case, that it did not possess the power to issue bank notes on a larger amount of silver than it already held.

The silver coin of the realm is charged with a heavy seignorage; and has, from the limitation of its quantity, a circulating value greater than its bullion value; and is not a legal tender for sums above 40s. It was the regulations of the Mint, and not the Act of 1844, which prevented the bank in question from employing its accumulation of silver coin in meeting its engagements.

16. Your petitioners submit to your Honourable House the unavoidable inference from all the facts they have set forth, that the present state of the law has not answered the purpose for which it was intended. From the time of its being passed it has been practically inoperative, until a great public calamity arises, and then, instead of sustaining public confidence—the vital element of a commercial body—it is found to shake it to its centre. And yet during the whole period of this remarkable pressure, the Bank of England has had more than nine millions of bullion in its possession.

The purpose for which the Act of 1844 was intended, was to secure the convertibility of the bank note. On the very showing of the petitioners themselves, this purpose has been completely answered. They say, in so many words, that during a pressure which shook public confidence to its centre, the Bank of England had more than nine millions of bullion in its possession. Like the prophet of old, the petitioners are constrained to bless, when they came to curse. If the convertibility of our paper money is to be maintained, the Bank ought at all times to hold a large amount of bullion in store. The Act of 1844 secures this result; but was this the case in 1825, 1836, or 1839, under the regulations of the old law?

17. Your petitioners are no advocates for an inconvertible paper currency, but they are humbly of opinion that if the Bank Charter Act had contained a relaxing power, lodged in the executive Govern-

ment, to be used—not in relief of commercial improvidence or indiscretion—but in the case of some great emergency, such as a short supply of food, or the occurrence of any great political crisis, the Bank of England would neither have been compelled to have recourse to the restrictive measures it has adopted, nor in all probability would any disturbance of public confidence have taken place.

The petitioners fall into a palpable inconsistency, when they state that they are not advocates of an inconvertible paper currency; inasmuch as the exercise, under a heavy drain of bullion, of the relaxing power for which they contend, would endanger the convertibility which they desire to maintain, and thus aggravate in an incalculable degree the disturbance of public confidence which they seek to avert. When an unfavourable balance of foreign payments renders gold the most eligible article of export, gold will continue to be withdrawn from the Bank, until, from the diminution in its quantity, and the consequent rise in its value, the prices of commodities, as measured either in gold or in the convertible currency, fall to the point at which commodities become the most eligible articles of export. But when the paper currency returned upon the Bank in exchange for gold, is replaced by increased issues upon securities, the fall of prices is prevented, and gold continues to be withdrawn until the coffers of the bank become so exhausted as to endanger convertibility. At this point the Bank, to avert insolvency, is compelled to withdraw the increased issues upon securities more rapidly than they were advanced. Hence

the temporary accommodation which might be afforded in cases of emergency, by the exercise of the relaxing power for which the petitioners contend, would be followed by aggravated pressure. Under all former regulations of the monetary system, the occurrence of some great emergency, such as a short supply of food or a great political crisis, has invariably produced a disturbance of public confidence. The expectation therefore, here expressed by the Petitioners, is not sanctioned by any past experience.

18. Your petitioners believe that the knowledge of the existence of such a power in the hands of the Government, would of itself at all times prevent that destruction of confidence which is in itself the greatest evil that can befall a commercial community; always aggravating in a fearful degree whatever mischief may exist, and contracting all monetary facilities at the very moment when they are most needed.

The knowledge of the existence of such a relaxing power in the hands of the Government would create a delusive confidence, and through that, tend to prevent those measures of timely precaution and restraint on the part of the public, from which alone a wholesome, and, at the same time, an effectual remedy for the evil can arise. The inevitable effect of such relaxing power would be to prolong confidence, when apprehension and preparation for coming difficulty ought to commence; and subsequently, when such unnatural confidence can no longer be

maintained, to render the panic and confusion unnecessarily abrupt and severe. In this respect, the recent mismanagement of the Bank, in its banking capacity, bears a close analogy to this supposed relaxing power. By unduly exhausting its banking resources, and thus extending accommodation when it ought rather to have contracted it, during the first three months of the present year—in other words, by exercising a relaxing power, the Bank of England created the panic of April last. The attempt to obviate the necessity of early measures of precaution and restriction under a drain of bullion, by the substitution of a relaxing power, terminated, as such attempts always must terminate, in pressure, unnecessarily aggravated by panic, and tending to confusion.

19. Your petitioners are further humbly of opinion that, considering that silver is the standard of currency in nearly every state in Europe, and in most other parts of the civilized world, and constitutes in itself, therefore, a substantial and convertible security—it is wholly inexpedient to deprive the Bank of England of the power of issuing bank notes on the deposit of that metal to any extent it may think proper, while it retains its responsibility to pay its notes in gold.

As silver, from being the standard of currency in other countries, constitutes in itself an available security, the merchant who holds it can convert it into gold as readily as the Bank, and nothing could be gained by giving the Bank an unlimited power of issuing notes against

it. Such a power, if injudiciously exercised, might have the effect of establishing a double standard. Should the value of gold decline in relation to silver, or the value of silver decline in relation to gold, the existence of such a power would give the Bank an undue advantage over the public, by enabling it to pay, in the standard which had declined in value, the notes which had been issued against the higher standard. The Petitioners contend that the Bank ought to have an unlimited power of issuing notes upon silver, because it is a substantial and convertible security. Is the Bank to have a similar power of issuing notes upon all securities which are substantial and convertible? If so—to what extravagant extent may not the issues be carried!

20. Your petitioners are aware that the recent monetary pressure has been sometimes attributed to the large outlay which has taken place in the construction of railways in this country.

21. Your petitioners are not called on to offer any opinion on this question, the commercial community being no way responsible for the extent of that outlay. They would only, as a matter of fact, remark, that whatever may have been the amount of outlay on these works, there was no considerable advance in the rate of interest, nor did any monetary pressure arise, until other causes came into operation.

The way in which the large outlay which has taken place in the construction of railways has contributed to

create a pressure upon the money market, is, in a considerable degree, by increasing the consumption of foreign, and diminishing the production of domestic commodities; and by thus rendering the exchanges more adverse than they otherwise would have been. The effect of this outlay in increasing the scarcity of money, could not become perceptible until after the exchanges had begun to turn against us. The commercial, the manufacturing, and the trading communities, as large speculators in railway projects, are to the same extent responsible for the extent of the outlay, and its effect upon the money market. At any rate, where a large proportion of the community enter into improvident speculations or extravagant engagements, it is impossible by any legislative process to obviate all risk of inconvenience to persons who are engaged in business, even out of the immediate range of such operations.

22. Your petitioners cannot omit to represent to your Honorable House the existence of one additional element in the recent pressure, of no inconsiderable force, the demand made by the Queen's Exchequer on the Bank of England, for assistance to meet the engagements of the Government. It humbly appears to your petitioners, that the power of the Bank to issue notes being strictly limited by law, a great hardship is inflicted on the commercial community when the Bank is compelled, by the wants of Government, forcibly to diminish the accommodation it would otherwise be enabled to afford to that body,

and this too, at a time when the Bank is called upon, by causes of peculiar urgency, to enlarge such accommodation to the utmost extent of its ability. Your petitioners humbly, but earnestly, suggest to the consideration of your Honorable House, that this powerfully disadvantageous action on the resources of the Bank ought not to be allowed to continue, without countervailing means being provided to meet it.

As the advances made to Government upon deficiency bills, are made for the purpose of being almost immediately re-advanced to the public in payment of the dividends, nothing can be more easy than to regulate the times of such advances and re-advances, so as to prevent any serious pressure upon the money market. Such advances tend neither to diminish the amount of notes issued, nor the amount of capital really applicable to commercial purposes. Their effect, therefore, in increasing commercial pressure cannot be important.

23. Your petitioners desire further to represent to your Honorable House, that although the pressure of which they have been speaking is now partially relieved, confidence is not restored, and the rate of interest on commercial bills is still unusually and injuriously high. And your petitioners feel bound to state, that in the event of any new cause of alarm arising, there is every ground for believing, while the law remains in its present state, that a pressure equally or still more severe may return, with conse-

quences not easily foreseen, and when the House of Parliament may not be sitting to mitigate their severity.

Your petitioners, with all humility, submit the foregoing considerations, affecting, as they do, in a national sense, very large and extended interests, to your Honorable House; and they pray

That your Honorable House will be pleased to consider the expediency of so amending the Bank Charter Act, that a relaxing power may be lodged in the hands of the executive Government, and that the Bank may be permitted to issue notes on silver bullion without restriction.

And your petitioners, as in duty bound, will ever pray, &c.

The difficulties to which the petitioners refer, arose from a combination of circumstances of a peculiar, and indeed, unexampled character. The immense extent of the railroad speculation; the famine in Ireland; the general failure of the crops of Western Europe; the immense importation of food into this country; and the high price of the raw material of the manufactures which constitute our principal article of export. In proportion as these causes are removed, or partially mitigated, the evil consequences which have ensued from them will be relieved. It is natural, therefore, and legitimate, that under present circumstances the pressure should be only partially relieved; confidence not fully restored, but in course of gradual restoration; and the rate of interest on commercial bills higher than it has

been during preceding years, and under different circumstances.

But should a further large importation of provisions become necessary, and cause a further drain of bullion, the maintenance of the law in its present state will then become more indispensably necessary, in order to prevent the insolvency of the Bank in its currency department, the suspension of specie payments, and the consequent total breaking up of all commercial credit.

The Birmingham philosophers are consistent reasoners, and have the sagacity to perceive that an arbitrary extension of the paper circulation is incompatible with the maintenance of a metallic standard. The inferior logicians who have signed the London petition, while demanding the establishment of a double metallic standard, are unable to perceive that an extension of paper money through the exercise (under a protracted drain of bullion) of the relaxing power for which they pray, would render impracticable the maintenance of any metallic standard.

THE END.

LETTERS
TO THE
EDITOR OF THE TIMES
ON THE
BANK CHARTER ACT
OF 1844,
AND ON THE
STATE OF THE CURRENCY
IN 1855—1856.

LETTERS

ON THE BANK CHARTER ACT, &c.

LETTER I.

TO THE EDITOR OF "THE TIMES."

SIR,—Your recent remarks on the Bank Charter Act and the currency, together with the articles you have reprinted from the *Scotsman* on the proceedings of the Edinburgh Chamber of Commerce, afford satisfactory proof of the existence of sufficient moral energy and firmness to resist the torrent of prejudice and selfishness with which we have been threatened on these questions.

The present crisis differs entirely in character from that of 1847. When at that period panic had seized the public mind and deprived the existing circulation of its customary efficiency, a suspension of the Act of 1844 afforded a remedy, not by increasing the amount of circulation, but by acting upon public feeling and restoring to the existing amount of circulation its legitimate efficiency. An increase of the amount of circulation would even at that time have been fatal, but against this danger the high rate of interest fixed by the Government letter (8 per cent.) was deemed sufficient—and so it proved.

But how stands the matter now? We have no panic

at present, although the alarmists are at work again, and no effort seems to be spared in some quarters to create a panic. It is to be hoped, however, that this will fail. The public is more intelligent, the question is better understood, and what is of great importance, the Bank of England has better comprehended its duty; it is now guided by more enlarged wisdom, and it has adopted measures of more timely precaution.

What are the evils now complained of? The ruinously high rate of interest and the insufficient amount of the circulation.

First, as regards the high rate of interest. That is, of course, only the indicator of the value of capital. In the present year the English, French, and Turkish Governments have appeared in the money-market of the world as new competitors for capital to the amount of nearly one hundred millions, and much of the capital obtained by them is to be entirely destroyed, instead of being diffused for reproductive employment. Moreover, we know that an equal amount may be required by the same parties in the ensuing year. Is not this fact sufficient to account for a great increase in the value of capital, that is, in the rate of interest? Is not such a result absolutely inevitable under such circumstances? The rate of interest has risen all over the world. The Bank of England has not dictated the rate by any arbitrary act on its part. It has only followed the market and made its terms of discount correspond to the actual value of money or capital in the general market of the world. If the Bank demands higher terms than those of the general

market, each man is free to seek his capital wherever he can obtain it cheapest, and the demand upon the Bank will soon be transferred to other sources.

But, on the other hand, if the Bank lends its capital upon terms lower than the general market rate, the demand of the whole country or of the world may be concentrated upon it, and no means, however vast, would be adequate to support such a demand.

The fact is, war is a great destroyer of capital, and at the same time it creates new competitors for it upon a gigantic scale. Hence, not only the value of capital, or the interest of money, must increase, but there must be a less amount of it for distribution among those who require it, and all cannot have at their control the same quantity they would have commanded under other circumstances. No legerdemain in currency can alter or obviate this hard necessity.

Secondly, as regards the insufficient amount of the circulation. The amount in the hands of the public at the present moment is not low. But, whatever it may be, it is not more restricted than is necessary to preserve our currency at its par value with the other currencies of the world.

What do the advocates of relaxation contemplate? Do they mean that the promise on the face of our Bank-note to pay so many pounds on demand shall be maintained or not? If they do not mean to maintain this engagement, in good faith let them honestly say so, and then we shall understand that we are discussing the expediency of a suspension of cash payments, a depreciated

currency, and the general fraud and confusion that must ensue. Upon this point I trust the honesty and good sense of the people of this country will speak out emphatically. But if the advocates of relaxation do not mean to abandon cash-payments, or to break the promise to pay the pound on demand, then it is for them to show how that promise is to be maintained consistently with an enlarged circulation. As matters now stand, our rate of interest has only risen in common with the rate of interest in the other countries of the world, and our currency is only kept at a value equal to that of the other countries of the world. This being the case—relax your law, increase your circulation. Two results will follow:—

First, the rate of interest in this country will, in the first instance, fall, and consequently there will arise a demand upon this country for capital (because it will for a time appear to be cheaper here than in other countries) which no resources can possibly meet; and, secondly, what still remains of specie in the hands of the Bank will at once be carried away through the exchanges, because the present limitation of the amount of the circulation alone maintains the exchanges at par.

Had relaxation been resorted to some months since, we should now have found ourselves with no gold in the cellars of the Bank. Panic in its worst form, because founded upon good reason, would have been our present state, with the dreadful prospect before us of a permanently depreciated currency. For our preservation from this evil up to the present time we are indebted to the efficiency of the provisions of the Act of 1844, and the

same provisions will be found sufficient to meet and overcome the present pressure, if the Bank is left to pursue that course of faithful adherence to its duty from which it has not on the present, as was the case on former occasions, shown any disposition to recede.

The real causes of the evils now complained of, are deficient crops and diminished supplies, causing a high price of the general articles of consumption; and war expenditure, causing an extensive demand for, and great destruction of capital, followed by a high rate of interest. These results must follow from these causes under any system of currency, convertible or inconvertible. If we want goods from abroad, we must pay for them in the last resort with goods of our own, and prices must accommodate themselves to this interchange. This must be the case equally whether we have a paper or a gold circulation. In like manner, if the Government borrow or consume capital profusely when there is little capital to spare, other borrowers must be content to pay an increased rate of interest to the lenders, whether we have a convertible or an inconvertible currency. Our currency laws are not responsible for the natural fluctuations of the seasons and of trade, nor for the embarrassment which necessarily arises from sudden and profuse war expenditure. The only difference is, that under our present laws a few millions of gold are reserved in the country to preserve the convertibility of our paper money, and by this small sacrifice we protect ourselves from the gigantic evils of depreciation.

MERCATOR.

30th November, 1855.

LETTER II.

TO THE EDITOR OF "THE TIMES."

SIR,—Your ready insertion of my former letter on the Bank Charter Act encourages me to address you again. In that letter I endeavoured to point out the real causes of the pressure which we now experience, and to prove that an increase of our paper issues through the relaxation of our currency laws would at the present moment be a dangerous measure, the very reverse of a remedy. The trade and commerce of a country are carried on, not by means of its paper money or its circulation, but by means of its capital; and when pressure falls upon the trading community it usually arises from some disturbance of the due proportion between the extent of trading operations and the amount of capital by which those operations are to be sustained. Changes in our currency laws, or fluctuation in the amount of our paper issues, can neither increase nor diminish the amount of capital. They may possibly exercise some slight influence upon the distribution of that capital, but this effect must be limited both in its extent and in its duration.

The present pressure, as indicated by the demand for capital and the consequent rise in the rate of interest, is not confined to this country. It exists equally at Hamburg—it exists at Paris—it affects the trading community of New York. For an effect thus world-wide in its character we must find a cause equally extensive in its influence. Supposed mismanagement of the circulation—an undue restriction upon the amount of paper issues—is

a local and peculiar cause; it is necessarily restricted in its effects to this country; it cannot be the parent of the pressure which now weighs upon the money-market, and upon the trade of Hamburg, Paris, and New York. The new demand, however, for capital caused by the outbreak of war—the transference of large amounts of capital from the purposes of trade to the support of military operations—is really a world-wise cause, co-extensive with and sufficient to account for the universal pressure which now exists.

Great efforts, however, are made to impress the conviction that the portion of the universal pressure now felt by the people of this country, is the result of an undue restriction of our circulating medium. The Act of 1844 and the arbitrary and unbending regulations imputed to it are held up to peculiar reprobation; and it is maintained that an effectual remedy for our present difficulty would at once be found in the repeal or in the relaxation of the provisions of that Act.

Upon what foundation do these views rest?

Before the Act of 1844 no restriction was placed upon the amount of the paper issues, except that which was supposed to be involved in the obligation to redeem the paper notes in gold on demand. The *obligation* to pay in gold was thought to be a sufficient security to the public that the *power* to do so would at all times be maintained by the issuers. This delusion, however, was dispelled by the events of 1825 and 1837. The excessive issues of paper money which preceded and mainly caused those convulsions were not found to afford any protection

against evils which we are now told are the offspring only of undue restriction. Nay more, they appear to have produced those evils in their most intense and formidable form—severe pressure, high rate of interest, extreme alarm, extensive insolvency, approach within a few hours to a state of barter, and the specie-reserves virtually exhausted.

This was sufficient proof that the mere obligation in words to pay the notes in gold on demand is not a sufficient security against excessive issues, or a safe guarantee for the faithful fulfilment of that obligation at all times.

Hence the Act of 1844, by which a new security was sought for the convertibility of the notes, and a new protection against irregular and illegitimate issues.

By the provisions of that act it is permitted to issue notes to the amount of £14,000,000 as before—that is, with no security for the redemption of the notes on demand beyond the legal obligation so to redeem them. But all fluctuations in the amount of notes issued beyond this £14,000,000 must have direct reference to corresponding fluctuations in the amount of gold. By this means the total amount of the issues is placed in direct relation to the amount of gold; and thus a fixed connexion in amount, and consequently in value, is established between the paper promise to pay in gold and the material power to do so. Without this it is obvious that the promise to pay is a mere empty, unsubstantial form of words, of no efficacy when the hour of trial arrives. Of this conclusion experience had afforded irresistible confirmation.

But this provision of the Act is denounced as being of

an arbitrary and unbending character, wholly unsuitable to the varying and elastic movements of an active commercial community.

Upon what sufficient grounds does this accusation rest? What is the arbitrary and unbending will by which the amount of our paper issues is now regulated? It is the will of the whole community in the exercise of its free, independent, commercial activity. Each individual acting upon his separate discretion and freedom produces in the aggregate result the general balance of the trade of the country. If the effect of this is to bring in gold, the amount of the circulation at once undergoes a corresponding increase. The power, therefore, of increasing or diminishing the circulation rests exclusively with the community at large. No law, no authority, interferes in any form with their free discretion; they may bring in gold or they may take out gold without let or hindrance, and as they do the one or the other the circulation is expanded or contracted. In what, then, does the arbitrary character of this regulation consist?

But, if not arbitrary, the act is rigid and inelastic. How does this question stand?

If a country increases in population, in wealth, in enterprise, and activity, more circulating medium will probably be required to conduct its extended transactions. This demand for increased circulation will raise the value of the existing circulation; it will become more scarce and more valuable than the circulation of other countries—in other words, gold will rise in value in England; it will be imported from other countries in which it has not

so risen in value; and by this import of gold the amount of the circulation in England will be increased. The extent to which the circulation should be thus increased is a very delicate and difficult question to decide. It would be very unsafe, and undoubtedly very arbitrary to leave the decision of it to the will or the judgment of any individual or of any constituted body. The decision of it can be safely intrusted only to the community at large, acting in free and unrestricted competition. By their trading operation they may bring gold into the country whenever and to any amount they may think proper. This they will certainly do whenever, from undue restriction of amount, the currency of this country is raised above the value of that of other countries. Thus they have in their own hands—the only hands in which the power can be placed with due security for its proper exercise—the full and uncontrolled means of regulating the circulation.

The prosperity and progress of a State are made by the laws of nature, other things being equal, to depend upon the free industry and prudence of the people who compose that State. They produce commodities as they think proper, and proportionate to their energy in this respect is the wealth of the State which they constitute. In similar manner the proper management of the circulation is made by the Act of 1844 to depend upon the free and unfettered course of the community in regard to their trading operations. If they bring in gold they increase the circulation; if they take out gold they diminish it. In this respect they are perfectly free agents; neither law nor authority interferes with them; and thus the regula-

tion of the amount of the currency is strictly in the hands of the public.

This is sound and legitimate free trade in currency.

Such being the effect of the provisions of the Act of 1844, can it be said, with either fairness or reason, that those provisions are arbitrary, or rigid, or inelastic, or unsuitable to the requirements of an active and progressive community?

The circulation, we are told, is at the present moment unduly restricted, and the law which causes that restriction ought to be relaxed for the purpose of facilitating an increase of the circulation. By whom, then, is the extent of the proposed increase of the circulation to be regulated, and upon what principle? If this delicate and dangerous power be taken out of the hands of the community at large, exercising that power through the import of gold at such times and in such quantities as the necessities of the community seem to them to require, in whose hands can it be safely confided, and by what other principle can it be properly regulated?

If the circulation be really deficient as compared with the circulation of other countries, how comes it that the active competition of the world does not withdraw gold from the countries in which the circulation, upon this supposition, is comparatively redundant, for the purpose of transferring it to this country, where the circulation, it is asserted, is deficient? So long as this transference does not take place we have the best evidence that the asserted deficiency of circulation has no real existence. Other countries may equally complain that their circulation is

deficient. They have a high rate of interest, difficulty of discounts, and mercantile pressure. But a general deficiency of circulation is an impossibility, because deficiency of circulation is a comparative term; it necessarily means deficiency as compared with that of other circulations, and all cannot be deficient in comparison with each other.

But a general deficiency of capital is a perfectly possible state of things; it is the state to which the war expenditure tends to reduce all the countries affected by it.

It is most important that we should not deceive ourselves as to the true cause of the difficulties which we may now see around us. Any mistake as to the cause may direct us to false remedies, the result of which will probably be something more than mere disappointment. Wild theories and chance remedies are now freely and unhesitatingly pressed upon our attention; but the sober-minded people of this country will not inconsiderately abandon the sound principles upon which cautious and wise statesmen, carefully consulting the lessons of experience, have established our monetary system. Above all, beware of the delusive charm of relaxation of your present laws, to be followed by increase of issues without a corresponding influx of gold. The transient and convulsive relief to be obtained from this source can be compared only to the fatal excitement which attends the first stage of intoxication.

Yours, &c.,

14th December, 1855.

MERCATOR.

LETTER III.

TO THE EDITOR OF "THE TIMES."

SIR,—The discussions which now agitate the public mind respecting the Bank Charter Act are involved in some confusion, in consequence of indistinct and inaccurate views of the real object and purpose of that measure. The failure or success of its provisions in their application to present circumstances can be correctly judged only by those who clearly understand the principle upon which that bill was founded, and the purposes which it undertook to accomplish. To obtain for the public the profit arising from the issue of £14,000,000 of notes not represented by gold in deposit, consistently with the maintenance of a circulation in all other respects the same as a metallic circulation, was the object of the bill. Except in this one respect, it did not undertake to secure any advantages to the public beyond those which would arise from a purely metallic circulation. The fluctuations of amount and the consequent pressure, whether convenient or inconvenient, which would occur under a metallic circulation were left unaffected by the Bill of 1844.

But two objections are now raised against that measure. What necessity, it is asked, for disturbing the state of things as it previously existed? The payments in specie, as restored by the Act of 1819, had been maintained from that time without the aid of the stringent provisions of the Act of 1844.

These provisions, it is further urged, purporting to restrict the amount of the circulation, are wholly unnecessary, and, in fact, inoperative, inasmuch as the circulation was not unduly increased in the periods preceding the great crises of 1825 and 1837; nor has the circulation, in fact, been materially contracted during the period of pressure through which we are now passing. What, then, is the purpose, and what are the useful results to arise from legislative provisions, purporting to regulate the amount of the circulation, but which, in fact, leave the circulation undiminished? The obvious reply to this objection is, that some special cause must have existed to sustain, if not to originate, the expansion of credit and speculation which preceded the catastrophes of 1825 and 1837; and some special cause also must now be in action to produce the restriction of credit and general pressure, the existence of which gives rise to the present discussions.

If contraction of circulation has not really occurred at former periods, and is not, to any great extent, in operation at the present time, what is the special cause in which the phenomena already alluded to have originated?

Under the system which existed before the Act of 1844, the Bank had the power of making unlimited issues, and that power only ceased when their gold was absolutely exhausted. This being the case, a drain of gold in its earlier stages attracted little or no attention on the part either of the public or of bankers. All went well, notwithstanding; there was no consciousness of any

decrease in the power of commanding bank notes; credit, confidence, speculation remained unaffected, until the gold was reduced to a very low amount. Then arose a sudden alarm for the safety of our specie payments; every strange resource was invoked in the last extremity to obviate this evil; a parcel of old discarded one-pound notes was drawn forth from a refuse cellar in 1825; the assistance of the Bank of France was ignominiously sought in 1837; and thus the last extremity—the actual failure to pay in gold—was narrowly avoided.

Meanwhile, however, panic and pressure in the most extensive and aggravated forms spread over the whole country; and a state of alarm, distress, and confusion was generated, with which the present gradual, regulated, and wholesome pressure will bear a very favourable contrast.

To prevent the recurrence of this state of things the Bill of 1844 was passed. The uninterrupted continuance of confidence and credit during a continuous drain of gold; the expansion of banking accommodation in the face of decreasing treasure, the only safe measure of that accommodation; the exhaustion of the bullion reserve unaccompanied by any protective measure; the imminent danger of final insolvency by the Bank; the discreditable expedients necessary to obviate this danger; the sudden, severe, and universal alarm and pressure must not be permitted again to return. *Non solum a calamitate, sed calamitatis metu defendendum est.* Such was the wise and manly decision of the public, and for this purpose the provisions of the Bill of 1844 were resorted to. The

power of issuing notes was subjected to a positive and clearly-defined restriction ; it must expand or contract with the increase or decrease of the bullion. The *power* of issuing notes by the banks, it will be observed, was restricted ; the notes actually advanced to the public by the banks might possibly remain with little alteration of amount, while the power of maintaining that amount of issue or of increasing it might be seriously diminished. In this consists the great distinction between the state of things previously existing, and that which was established by the Bill of 1844. Previously to 1844 the reserve of notes in the banks was unlimited ; subsequently to 1844 the amount of such reserve was subjected to strict limitation, being made to depend on the increase or decrease of the gold.

In the evidence before the committee of 1848 attention was pointedly directed to this very important effect of the Bill of 1844 by Mr. Jones Loyd (Question 5204):—

“The Bank now has in its bank till an amount of notes equal to the whole amount of bullion in the issue department, *plus* £14,000,000, and beyond that amount the notes of the Bank cannot go. If any diminution of the bullion in the issue department takes place, a corresponding diminution must take place in the amount of notes in the till of the Bank of England. That is the position of things under the present system. Under the former system the state of things was extremely different ; a great alteration in the amount of bullion might take place without any contraction whatever of the power of the Bank of England to issue notes. The Bank of England under the former system might be considered as having an unlimited quantity of notes in the bank till, so long as there was any bullion whatever in its possession. Under that system, so long as

the Bank of England had any bullion with which to pay the notes when presented for gold, she had an unlimited power of issuing her notes ; now she has not."

Nor was the importance of this regulation overlooked by the framers of the measure. The publication of the state of the banking reserve was made an essential feature of the arrangement, and the public are thus furnished with accurate information, from week to week, not only as to the amount of notes actually passing from hand to hand ; but also as to the fluctuations in the amount of that banking reserve from which the amount of notes circulating with the public is from day to day to be supplied. The result has been precisely that which was anticipated. The public attention, which was previously directed only to the state of the bullion, is now fixed upon the banking reserve ; as that diminishes, public anxiety increases, credit and confidence are gradually contracted, and speculation and the state of prices founded on speculation are subjected to an early and salutary check. This effect is further promoted by the influence which the bill exercises upon the Bank of England, and upon the country bankers. Previously they acted under a sense of unlimited power in the issue of notes ; now they act under a full consciousness that that power is subjected to positive restrictions, and circumscribed within clearly defined limits. If the notes in the hands of the public are maintained at their full amount during a drain of gold, this can only be effected through an exhaustion of the reserve of notes in the banking till. Of this fact the public become fully cognizant through the weekly publi-

cation of the accounts, and all the legitimate results of contracted circulation ensue.

Indeed, a decrease of the banking reserve is more immediate and powerful in its action upon confidence, upon credit, and speculation than is a decrease of the amount of notes in the hands of the public. Because such decrease of the banking reserve is a fact more unequivocal and more distinctly known to the public; and at the same time it affects in a more immediate and direct manner the great sources and support of credit and speculation—the banking establishments.

Previously to 1844 the banking reserve was a vague and undefined quantity; it was the power of issuing any amount of notes until the gold was finally exhausted; and as is the case with all undefined power, the extent to which it could be safely and legitimately exercised was greatly over-estimated. The really exhausted state of the banking reserve—the near approach to that amount which was inconsistent with the safety of cash payments—was unfortunately concealed from the public, and therefore the legitimate correctives were kept in abeyance to the last moment. This was the great pervading vice of the then existing state of things; a cause intimately connected with all the difficulty and ruin of 1825 and 1837.

Subsequently to 1844 the state of the banking reserve has become the prominent feature of our monetary system; the fluctuations in its amount are anxiously watched by the public; they exercise a powerful and immediate influence upon the state of credit, and are, in

fact, more influential in regulating the exchanges and maintaining the monetary equilibrium between this and other countries than the amount of notes with the public ordinarily termed the circulation, though constituting, in reality, only a part of the circulation.

Notes in the till of the banking department are to all intents and purposes part of the circulation, as much so as notes in the till of any private bank. They must have been previously issued by the currency department, between which and the banking department there is not, according to the principle of the Act of 1844, any real connexion whatever.

Under the pressure of 1847 the provisions of the Act were suspended and relief ensued; although the amount of so-called circulation—that is, of notes in the hands of the public—underwent no increase. What is the explanation of this?

The true effect of the suspension of the Act was to restore to the banking department the unlimited *power* of issuing notes (accompanied by the essential safeguard of a rate of interest fixed at a high amount), and all the effects of increased circulation followed; although no additional notes were issued to the public.

At the present moment an important contraction of credit has taken place; a salutary spirit of caution throughout the trading community has been generated; a powerful restrictive influence has been exercised over the exchanges; and many other corrective processes have been called into activity. What is the cause of this? The mere decrease in the amount of notes circulating

with the public has not been to an extent adequate to account for such extensive and important results. Nor, indeed, is there any ground for believing that such satisfactory results would have been secured if the public had received no other admonition than that which is conveyed in the slight fluctuations of the amount of notes passing current with them. Such was the case under the former state of the law; and we read the result in the events of 1825 and 1837.

By the Act of 1844, however, a new source of useful information and admonition was opened to the public; they were taught to direct their attention to that portion of the circulation which consists of notes in the banking till; and the means of watching the fluctuation of this part of the circulation were provided. We are now reaping the fruits of this simple, but wise precaution. A continuous decrease of that portion of our circulation which is to be found in the bank till has occurred; and this fact, not, as formerly, mystified and obscured by a vicious state of the law, but rendered clear and notorious to the whole public, has produced all the true effects of contracted issues.

The purpose of these remarks is to direct attention to the importance of the state of the banking reserve; and to show that no discussions on this subject can tend to instruct the public, or lead to a satisfactory or profitable result, which omit this essential consideration.

The absence of any defined and known limits to the banking reserve was the principal cause of the prolonged state of excessive credit which terminated in the con-

vulsion of 1825, and again in the mercantile distress and monetary danger of 1837.

Hence the necessity for the Act of 1844, by which the unlimited power of issuing notes was checked, and the banking reserve was made subject to positive regulation.

The effect of the limits thus imposed upon the banking reserve is now apparent in the early precaution and gradual contraction of speculative excitement, by means of which we are enabled to maintain commercial credit unshaken, while the exchanges are subjected to a powerful restraint, and our specie reserves are kept at a sufficient, though not excessive amount under circumstances of severe and peculiar difficulty. Let this state of things be contrasted with that which has existed at previous periods of pressure and difficulty ; and a reflecting community will not come to the conclusion that our recent monetary legislation has been uncalled for by any adequate necessity, or that it has failed to produce the results which it undertook to secure.

Yours, &c.,

MERCATOR.

10th January, 1856.

LETTER IV.

TO THE EDITOR OF "THE TIMES."

SIR,—Permit me, through your columns, to make one more effort to clear away the mists and obscurity which have been thrown around the question of the Bank Charter Act, and its effect upon the present state of our bul-

lion reserves and of commercial credit. The subject is not in itself intricate or obscure; the public will find it to be simple and easily intelligible, if they will only believe it to be so, and will approach it free from all passionate feelings, and from that impression of mystery which creates the evil it dreads.

The Act of 1844 was passed as a *complement* to the Act of 1819.

Its purpose was to secure effectually the maintenance of cash payments, by rendering the absolute exhaustion of the bullion impossible.

It had direct reference only to the safety of the monetary system.

By its effects in this respect the success or failure of the Act must be tested.

The effect of the Act upon credit and speculation is incidental only.

Could it even be shown that it produces no effect on these, still the expediency and necessity of the Act would remain unaltered.

But, no doubt, the contraction of notes as bullion is withdrawn, does act indirectly upon credit, speculation, and prices—the extent of the effect thus produced varying according to other concomitant circumstances.

We have a practical illustration of both these effects of the Act, the direct and the indirect effects, in the present state of monetary affairs.

The store of bullion has been effectually maintained, notwithstanding a pressure upon the exchanges, from various causes, of the severest character.

And this result has been accompanied by a gradual restrictive influence upon credit and speculation, the utility of which few reasonable persons will deny, and the connexion of which with the present safety of our monetary system must be obvious to all who remember the insecurity of our monetary system on former occasions, previous to the Act of 1844, when no such restrictive influence was brought into play during the early period of a drain of bullion.

But, it is said, issues cannot be contracted so long as bankers are liable to be drawn upon by depositors, and are subject to demands from their customers for discount.

It is surprising to what an extent a plain and simple matter may be obscured and mystified by random assertions couched in ambiguous terms.

It might as well be asserted that, notwithstanding the deficiency of the supplies which Providence may furnish, the food of a people cannot be contracted so long as hunger prevails, and men must be fed.

The total amount of bank-notes is now made by law to correspond to the total amount of bullion. If the amount of bullion is diminished by foreign drain, the amount of bank-notes is diminished to an equal extent by law. The aggregate body of bankers in that case can command a less amount of bank-notes with which to work their business. What, then, are they to do? Their depositors draw upon them.

At first they endeavour to meet these demands from the bank-notes in their till—i. e., from their banking reserve.

But as the total amount of notes issued has been diminished in proportion to the drain of bullion, the reserve of each banker, already restricted by this process, will bear no further pressure. The approaching exhaustion of this fund will compel them to resort to other measures, through which they may be enabled, notwithstanding the decrease in the amount of notes issued, still to meet their outstanding liabilities.

They will necessarily proceed to realize their securities, and to contract their credits and their discounts.

It is idle to deny the possibility of this; it is what must occur by the very necessity of the case; it is what has occurred on former occasions, and what again is now in progress, acting most beneficially, because the process commenced early and has proceeded gradually.

But the present state of commercial affairs, we are told, requires an increased issue of bank-notes.

Let us consider what would be the certain and immediate effect of such increased issue if resorted to.

The exchanges are at this moment barely maintained at par. Bullion is on the point of going out of the country; indeed it is still subject to gradual diminution.

This affords conclusive proof that our circulation is not too high in value, and therefore is not deficient in amount when compared with the circulation of other countries.

If we now proceed to a further issue of bank-notes, this will at once render our circulation redundant com-

pared with that of other countries; the exchanges will be relaxed, and bullion will pass from us to those places in which there has been no corresponding increase of circulation.

This process will go on so long as this additional issue of notes is maintained at the increased amount.

It was by a persistence in this very process that on occasions of adverse state of exchanges, before the Act of 1844, the bullion was reduced to an alarming extremity.

By the Act of 1844 a recurrence to this fatal process was rendered impossible; hence the comparative safety of our monetary system at this moment, and the satisfactory state of commercial credit, as contrasted with the state in which it was found at former periods of adverse exchanges and consequent pressure.

Let it be clearly understood that no additional issue of bank-notes can, under present circumstances, settle down into a real increase of the circulation, if cash payments are to be maintained.

Our monetary condition, stated in round numbers, stands thus:—

The issue department holds £10,000,000 of bullion and £14,000,000 of securities, against which it has issued £24,000,000 of bank notes.

In this state of things the unsettled state of the exchanges tells us that the circulation is rather in excess than otherwise, compared with that of other countries.

Suppose, then, we issue more bank-notes—say

£4,000,000. Bullion will at once begin to leave the country, until the equilibrium between the amount of our circulation and that of other countries is established.

We shall then stand thus:—

The issue department will hold £6,000,000 of bullion, and £18,000,000 of securities, against which it will have issued £24,000,000 of notes.

We shall still remain with the same amount (£24,000,000) of notes issued; the only difference being, that our reserve of bullion will have been diminished, and a corresponding increase will appear in the amount of securities.

Upon the supposition now under discussion—namely, a further increase of bank-notes under present circumstances—we are inevitably brought into this dilemma:—If the increased amount of circulation be maintained, the bullion will immediately leave the country, and a suspension of cash payments must ensue. If the increased amount of circulation be not maintained, we then revert to our former position; the advantages anticipated from an increased amount of circulation will not have been obtained, while our protective reserve of bullion will have been seriously diminished.

I must not trespass further to follow out these views to all their legitimate and not unimportant consequences. This duty must be performed by the public on its own account. I have endeavoured to indicate the true course of inquiry, and to state the case in the shortest and most simple form. In the torrent of discussion with

which this subject has been overwhelmed, we have had too many words and too little of clearness and simplicity of views. Truth, however, is in its nature always simple and clear ; and so it will be found in this case, even by our imperfect faculties, when we seek it with singleness of purpose and free from the misguiding influences of prejudice, self-interest, and impatient passions. The present confusion of tongues, we must hope, is the process through which truth will in the end be elaborated.

MERCATOR.

24th January, 1856. °

LETTER V.

TO THE EDITOR OF "THE TIMES."

SIR,—In a few weeks Parliament will assemble. Among the important subjects to which its attention must then be directed will be the Bank Charter Act.

Is that measure to be renewed and rendered permanent in its present form? Is it to be subjected to important modifications, or is it to be altogether repealed, and the management of the circulation and the security for the maintenance of cash payments to be restored to the state in which they were before the Act of 1844 was passed? The Government must shortly declare its opinion and tender its advice to Parliament and the country, with the view of coming to a final settlement of this question. In anticipation of the discussions which

must take place it is desirable that the public should refresh their recollection of the leading considerations by which the necessity for some further security for the due management of the circulation beyond that provided by the Act of 1819 was established, and of the preliminary discussions which prepared the way for the passing of the Bank Charter Act. Nor is it unnatural that they should wish to satisfy themselves how far the reasoning of those who advocated that measure, and the anticipations they entertained of the probable practical results, have been verified by the subsequent course of events.

The principle of placing a positive restriction upon the amount of the paper issues was introduced for the first time in the Act of 1844. Previously to this, the paper issues had been subjected to no further restriction than that involved in the obligation upon the issuers to convert their notes at all times into gold on demand. To rely upon the efficiency of such an obligation, unaccompanied by any security for the certain fulfilment of it, and to permit an unlimited issue of paper notes, which are, nevertheless, to be at all times convertible into the metal of intrinsic value, will not now to an instructed public appear to have been a very reasonable or wise measure. So it is—in every progressive step of knowledge we look back with astonishment at our antecedent ignorance. The duty rests with Parliament and the country to institute at the proper time a careful inquiry into the operation of this new principle ; and the recent course of events having subjected our monetary system, in common with that of the other countries of Europe, to a severe

and protracted trial, the present seems to be the appropriate moment at which we may dispassionately scrutinize the practical operation of a measure the object and purpose of which was to secure the solidity of our monetary system from all possible danger during such a contingency.

Hitherto, the advocates of the Act of 1844 have been content, in the storm of ignorant abuse with which they have been assailed, to leave their opinions to the sure operation of time, and the silent but irresistible influence of truth. The new principle, however, has now been subjected to a sufficient trial. Every honest inquirer after truth will ask, "What has been the result? Has the solidity of our monetary system been effectually maintained under the provisions of the Act through the recent period of protracted pressure on the exchanges? Has the operation of the Act been found to correspond with the anticipations of those who originally advocated the principles upon which it is founded, and has it accomplished the results which they venture to promise?" From such inquiries the friends of the Act of 1844 have no reason to shrink. The hopes they ventured confidently to entertain have not been disappointed; the results they looked to have been fully accomplished; and the principles upon which they relied have received ample confirmation.

But a further question may suggest itself, and the investigation to which it points cannot be overlooked.

Have the restrictions imposed by the Act as necessary for the protection of our bullion reserve and the faithful

maintenance of the metallic value of our circulation been found consistent with the prosperity of our trade, our commerce, and every branch of productive industry, and conducive to the safe and healthy development of the national resources?

The answer to this question is calculated to generate feelings of pride, not in the friends of the Act of 1844 alone, but in the breast of every Englishman. Because it is to be found in a careful consideration of the progressive increase of the trade of the country through the twelve years during which the Act has been in force, and of the corresponding increase of prosperity in every other branch of industry; and further, in a comparison of the present extension of national prosperity with the state of the country in 1844, the year in which the Act was passed.

The great change in our commercial system by which the jealousies and protective restrictions of former times were abandoned for the principles of free trade, and also the laws by which the monetary system has been established upon a clearly-defined and solid basis, are due to the wisdom and firmness of the same Minister. They were introduced about the same period; they were received by an important portion of the community with the same vehement and incautious denunciations; they have now been subjected to the same test of practical experience, and the issue has been in each case a similarly successful result. Born about the same time, and springing from the same parent, these great measures have been exposed to similar difficulties through their early

career; vague apprehension and unnecessary panic on the part of the short-sighted and ignorant, bitter hostility and unscrupulous abuse from the rash and intemperate, frantic clamour by some, ominous but mistaken predictions by others. To what an amount of unreasonable hostility, to what rancorous and unseemly abuse, was Sir Robert Peel exposed, on account of the measures by which he placed the prosperity of our trade upon a lasting and solid foundation! Nor did a more reasonable or just appreciation attend the effort which he made to simplify and strengthen the foundations of our monetary system. We were told, "If you remove the restrictions by which British industry has been protected and nurtured—if you proceed to expose our trade to foreign competition—British energy will be paralyzed; the trader will be undersold, the agriculturist will be ruined, and the foundations of our national prosperity will be shaken. If, again, you attempt to put a positive restriction upon the amount of the paper issues, and thus faithfully secure to the paper money a value corresponding to that of the metallic money, the result will be that credit will be destroyed, enterprise will be paralyzed; the multiplied transactions of this busy country cannot be carried on with a monetary system thus restricted, and the naturally expansive tendencies of our prosperity will be fatally obstructed." To these anticipatory apprehensions and alarming predictions the supporters of the measures of Sir Robert Peel, both as regards trade and monetary affairs, may now oppose a triumphant appeal to practical results. What was the extent of our trade, what the general state of national

prosperity, in 1844,—the period at which it may be fully said that both these great measures were inaugurated ; and what is the corresponding state of trade and general prosperity at the close of 1856, when these measures have undergone a twelve years' probation.

The monthly and annual statements published by the Board of Trade are now accessible to everybody, and, fortunately, they are the subject of careful consideration by many. These tell a plain but impressive tale. Imports and exports, amounting in 1844 to £45,000,000 sterling per annum, increased in 1856 to an amount considerably exceeding £100,000,000. Let an intelligent community reflect seriously upon the full meaning of these tables ; let them clearly develope to themselves all that is really expressed in this short statement. What must have been the development of national industry by which this immense increase of exports is produced ! What the accumulation of capital in the machinery necessarily employed in producing, in the railroads and shipping occupied in the transference, by land and by sea, of these exports, and in bringing back the corresponding imports ! What must have been the increase of national resources which can enable the people of this country to pay for this incredible amount of imports ! What an increase of the comforts and the luxuries of the people must the distribution among them of such an amount of imported articles necessarily involve ! And, lastly, what must have been the extension of credit and the expansion of confidence, without which these multiplied transactions could not be sustained, and this extensive inter-

change and distribution of commodities could not be effected.

These results cannot be claimed as the direct and necessary consequence of the monetary legislation of 1844. They are the glorious fruits of the free trade measures of that period. But, if the seed was sown and first germinated in the soil of free trade, let us remember that our monetary legislation has constituted the atmosphere in which the plant has grown to its present strength and maturity. Does it now exhibit any symptoms of having been nurtured in an ungenial climate, any indication of deficiency in the support and nutriment necessary for its healthy growth, or any sign that it has been subjected to pruning or restraint incompatible with the full development of its gigantic proportions? The events of the last twelve years are pregnant with valuable instruction as regards our monetary as well as our commercial legislation, and reference may justly be made to them as affording evidence of the safety and efficiency of the Act of 1844. It has protected the bullion reserve and faithfully maintained the value of our paper money through a period of very trying circumstances, and, while discharging this, its peculiar and appropriate function, the restriction imposed by it upon the paper issues has not been found inconsistent with a wonderful development of industrial energy, nor has the application of those restrictions, even in their most severe and stringent form, verified any of the sinister predictions of its opponents. It has not destroyed credit, it has not paralyzed the operations of trade, it has offered no serious interruption to the

safe and healthy expansion of national prosperity to an extent of which there is no previous example. While, however, it has thus extinguished the predictions of its opponents, it has realized all that its advocates ventured to promise on its behalf.

Through a protracted period of unnatural disturbance in the distribution of the precious metals throughout the world, and of consequent pressure upon the monetary system of all the countries of Europe, it has maintained a strict correspondence of the amount of paper notes with the amount of bullion: it has introduced the necessary restriction upon the amount of the paper issues and upon credit in the early stage of the drain of bullion, and has thus rendered it gradual; it has indirectly afforded timely warning and applied a salutary restraint to dangerous speculations, without unnecessarily crippling legitimate operations; it has exercised a moderate but steady and effectual control over the exchanges; it has thus arrested a drain of bullion which would otherwise have become formidable, and in the last stage productive of serious alarm (which we know was the almost invariable result in former times); and there is every reason to expect that it will have conducted us safely through all the difficulties of the past year. The winds have blown, the waves have rolled, even the compass has been disturbed, and has seemed at times to give uncertain indications, but the vessel has kept her true course, and she is now about to pursue her further voyage, sound in all her parts, her masts and her rigging undisturbed, and her cargo uninjured.

Are we, then, to cashier the captain, to condemn the

ship, to issue a new code of sailing instructions; or have we sufficient reason for continuing our confidence in the soundness and efficiency of the system under which the results already described have been secured? Those who have uniformly supported the Act of 1844, through good report and through evil report, have rested their confidence upon scientific principles: and those principles have never been shaken in argument. For a practical confirmation of their views they have always appealed to future results. These results are now before the public—an enlightened public, if we contrast the knowledge now diffused throughout the community on this subject with the darkness by which we were overshadowed when these discussions first arose.

What, then, is the public judgment on this matter? Let those who from their position in the Bank direction have had the duty of watching with daily vigilance the operation of the Act through a period of trial, declare the result of their observation and experience. Have they found that the powers with which they are armed, and the restrictions to which they are subjected, are consistent with the satisfactory conduct of our monetary affairs? What is the result of the experience of our cautious and enlightened merchants? Have they found the monetary system of this country subjected to an unnecessary pressure from which other great trading communities have been exempt? Have their transactions been restricted and interrupted by needless monetary pressure, while those of their correspondents at Hamburg, at Paris, at Vienna, or at New York have been subjected to no such inconvenience?

What, according to their experience, would have been the certain result of a relaxation or suspension of the Act of 1844 during the past year? Are they not convinced that the demand for capital and the consequent rise in the rate of interest would have been rendered more severe through the further expansion of undue speculation; that the pressure upon the exchanges and the drain of bullion would have continued longer without due correction; and that, in the last extremity, sudden contraction and alarm would have been the inevitable result, instead of that gradual and easy restriction under which trade has continued to prosper, while the monetary system has been effectually protected? Surely, the lessons of former experience are not to be obliterated—the crisis of 1825, when the exchanges remained uncorrected till the bullion was reduced to almost the last sovereign, and consequent alarm had brought the country to the very verge of a state of barter; the perils of 1837 and 1839, when a repetition of this neglect of timely restriction of the issues brought about analogous results, imminent danger to the monetary system and extreme alarm. Are we so thoughtless or so mad as to contemplate a return to this state of things as preferable to the ease, the tranquillity, the undisturbed state of public credit, and the uninterrupted prosperity of every branch of industry which has characterized the past year?—The determination of this question may be safely left to those great classes of the community which have the most immediate interest in a wise decision. Public opinion, expressed through them, must exercise its legitimate and salutary influence on the deliberations of the

Legislature. The subject, fortunately, is no longer involved in the obscurity which formerly surrounded it. Facts have accumulated, and are spread like seed over the public mind. Correct information and sound reasoning have diffused their enlightening influence over all classes. The alarm, not unnaturally excited in the first instance by vague denunciations and unfounded predictions of evil upon a subject imperfectly understood, has subsided, and the ever-varying phenomena of monetary affairs, the alternations of ease and pressure, of excitement and restriction, the inevitable accompaniments of activity and progress, are now contemplated with that calm composure and steady confidence which are the sure result of sound knowledge.

Thus are we prepared to approach the question of the Bank Charter Act and the final settlement of our monetary legislation, free from the foolish apprehensions which spring from ignorance, and undismayed by warnings and denunciations, the fallaciousness of which has been established by recent and enlarged experience, confirming the conclusions of previous reasoning and establishing the final triumph of sound principles.

MERCATOR.

December, 1856.

LETTER VI.

TO THE EDITOR OF "THE TIMES."

SIR,—Your insertion of my former communication encourages me to pursue the subject.

In the approaching session legislation must take place upon the Bank Charter Act. That measure must be renewed or repealed, partially or entirely ; and, as preparatory to this result some judgment must be pronounced by the public, to arrive at a sound conclusion we must revert to the circumstances creating the necessity out of which that measure arose, we must again examine the principles upon which it was founded, and the results which have arisen under the Bill must be compared with the anticipations and predictions of those upon whose recommendation and authority the measure was passed.

The Act of 1844, though founded on scientific principles, was eminently a measure of a practical character.

It was an attempt to apply an effectual safeguard against the inconvenience and danger which had actually occurred on several occasions between 1819 and the period of passing the Act. When the resumption of cash payments was determined upon in 1819, the Legislature subjected all issuers of notes to the obligation of paying their notes, on demand, in gold. But it took no further steps to secure the fulfilment of that obligation ; no restriction was placed upon the number of issuers, nor upon the fluctuations in the amount of notes which such issuers might put forth.

The efficiency of this system for the proper regulation of the circulation was subjected to severe trial, especially on three occasions—1825, 1837, and 1839.

No reasonable person can be surprised at the results which ensued. The Legislature had imposed an obligation to pay the notes in gold on demand, without providing

any security for the fulfilment of it. It required a constant coincidence of value between paper notes and metallic coin, but it put no restriction upon the issue of the paper notes, the value of which could be regulated and maintained by no other means than a strict limitation of the amount.

The discussions which subsequently arose established a conviction in the public mind that the disasters of trade and the imminent danger of failure to maintain specie payments which marked those periods were intimately connected with mismanagement of the paper issues. Extensive insolvency of the issuers had occurred ; and the issuing power had been greatly abused by maintaining the amount of issues undiminished when the state of the exchanges and the steady decrease of the bullion reserve clearly demanded a contraction of the circulation, for the purpose of maintaining its value and securing its convertibility.

When the period for the renewal of the Bank Charter arrived, Sir Robert Peel applied his eminently practical mind to a consideration of the proper means of correcting these evils.

He saw that the discretion of the issuers is not a sufficient security to the public for the proper regulation of the amount of the circulation, but that it must be secured by some positive enactment.

He saw that banking purposes, or the supposed requirements of trade, do not constitute the proper measure by which to regulate the amount of paper issues ; but that these must be regulated with reference to the amount of

the bullion into which the notes are to be at all times convertible.

These considerations led Sir Robert Peel to the conclusion that, as an abstract principle, without reference to what is due to existing regulations, to established habits and prejudices, the paper money of a country ought to be issued by one body exclusively, and that the amount of that issue ought to be regulated in strict accordance with the fluctuations in the amount of gold.

Upon this principle the Act of 1844 was founded; and in the provisions of the Act this principle was carried out to an extent which was deemed sufficient to secure the great object in view. In some not unimportant particulars the application of this principle was, however, partially modified or suspended, in obedience to practical considerations of the nature already alluded to.

The "Issue Department" of the Bank of England was completely separated from the "Banking Department," and the fluctuations in the amount of Bank notes put forth by the "Issue Department" were made to conform strictly to the amount of bullion in deposit.

Numerous sources of issue were still permitted to continue, but these were subjected to new regulations, the object of which was to put some effectual restraint upon the private discretion of the issuers, to establish a more close and immediate relation between the fluctuations in the amount of their issues and of the gold in deposit, and to diminish the danger of insolvency on the part of the issuers.

The question which now comes before the country is this—whether the Act of 1844 ought to be renewed in its present form, or with modifications, or whether it ought to be altogether repealed.

To determine this question we must consider how far the Act has accomplished the purpose for which it was passed, how far the principle upon which it was founded has been verified by subsequent experience, and whether the anomalies still permitted to exist under the provisions of the Act, have been found to interfere with the full efficiency of the Act to such an extent as to require further legislation for the correction or removal of them.

The first great object of the Act was the effectual maintenance of specie payments, and the suppression of all real danger, and of such reasonable alarm and apprehension upon the subject as occurred in 1825, 1837, and 1839.

And, second, the accomplishment of this result by means which would secure a constant conformity between the fluctuations in the amount of paper notes and of the bullion, and thus necessarily insure an early and therefore gradual contraction of circulation, instead of leaving it to fall, in an advanced stage of the drain of bullion, with sudden and disastrous violence upon a public unprepared, and therefore easily alarmed.

That the Act has fully accomplished all that was expected from it in this respect admits of no reasonable doubt. It has been in operation during a period of 12 years, and in the latter part of this period we have passed through a severe trial—a sudden transition from peace to

war, and again a return from a state of war to peace, immense military expenditure and heavy loans by the principal Governments of Europe, a severe drain upon the precious metals in all the principal exchange towns in Europe, a great rise in the rate of interest throughout the continent, from the extensive destruction of capital during the war, followed by the sudden, though natural, expansion of commercial enterprise on the return to peace, and a further pressure upon capital in this country, from the speculative activity springing out of the excitement of a new limited liability law.

Through the whole of this trying period the bullion in the Bank of England has been steadily maintained at an amount which effectually suppresses all alarm or anxiety respecting our specie payments; the unavoidable pressure upon the money-market has come on gradually and progressively, in concurrence with the drain upon the bullion, and, the result being clearly anticipated, and the cause of it correctly understood by the trading community, it has produced neither alarm nor serious inconvenience. In this respect the contrast of the circumstances attending the recent drain, and of the manner in which it has been met, with the effects produced during former periods of pressure in 1825, 1837, and 1839 is most satisfactory and encouraging.

In the 12 years which have now elapsed from the passing of the Act, the trade of this country has more than doubled, we have passed from peace to war, we have raised large loans, we have greatly increased our taxation without any decrease of the previous productiveness of

each branch of our revenue, we have sustained a protracted drain of bullion, and we are now speedily progressing through a period of pressure and difficulty, the cause of serious embarrassment in other countries, without any real disturbance with us of public credit, or any apprehension respecting the solidity of our monetary system. The high rate of interest, the long continued export of bullion, and the unavoidable pressure upon our monetary system, are met without alarm, without difficulty, without any general discredit. This firm and steady condition of our trading community will bear a favourable comparison with the state of credit in other countries under the influence of the same disturbing causes. This consideration leads to the conclusion that there is nothing in our monetary legislation really unsound; that the law by which we have placed our paper issues upon a solid basis is perfectly consistent with the unlimited development of our trading energies under favourable circumstances, and with a solid and steady state of public credit and commercial resources during periods of adverse exchanges and of increased demand for capital.

But a relaxing power is called for by some persons. What necessity can there be for any special provision to facilitate the relaxation of a law, under the stringent application of which such results have been accomplished?

Let us consider well the inevitable consequence of introducing any relaxing power under the Act. Will it not destroy the real efficiency of the Bill?

As the law now stands, the commencement of a drain of bullion is immediately followed by measures of precau-

tion on the part of the Bank and the public, engendered by the conviction that contraction of issues and restriction of credit must progress without interruption until the drain of bullion has been effectually checked. Convinced that they can have no ultimate resource or security except in a cessation of the drain produced by contraction of issues, and an increase in the value of money, both the Bank and the public watch with vigilant attention the first symptoms of decreasing bullion, and, resorting at once to those measures which are the only legitimate and certain means of arresting the drain, they obviate all ultimate danger, and are enabled to meet the difficulties of the crisis—the contraction of issues, the rise in the rate of interest, the restriction of credit—without embarrassment or alarm.

Upon this point we may now make a conclusive appeal to experience.

But if a relaxing power be introduced into the Act a strong tendency will at once arise, influencing both the Bank and the public to rely, less upon their own early precaution and prudence, and to look to a resort to this relaxing power as their ultimate source of relief. By this means the adoption of precautionary and corrective measures will be delayed, the early and gradual contraction of credit and of transactions will be interrupted, the steady confidence with which the public now contemplate the progress of a drain of bullion, and meet the pressure which necessarily accompanies it, will be disturbed, and thus the real utility and efficiency of the Bill will be seriously impaired—possibly altogether lost.

The Act was passed for the express purpose of preventing the possibility of an undue issue of paper-money in periods when the temptation to such undue issue becomes pressing and dangerous. The introduction of a relaxing power would be a public declaration inserted in the Act itself that its restrictive provisions shall not be enforced when those peculiar circumstances occur which render the provisions of the Act necessary to protect the solidity of our monetary system.

What would be thought of the courage which claims the privilege of running away whenever the danger becomes great, of the fortitude which shrinks when the trial is severe or the pain acute, or of the moral code which sanctions the principle of relaxation whenever the temptation to crime becomes strong or the effort of resistance is peculiarly painful? The absurdity is in no respect less in the matter now under our consideration. No great danger can be averted, no pressing evil can be removed, without the strain and effort of a determined struggle or the painfulness of some present sacrifice. When all the civilized world is competing for capital no country can retain its due proportion which will not consent to pay the necessary price in the form of a high rate of interest. When peculiar causes create a general and severe demand for the precious metals, the country which will not consent to bear her proportionate share of the pressure, must consent to yield to other countries in which there is more firmness and more regard to principle, those precious metals, and to abandon that metallic standard which she has neither the virtue nor the resolution to maintain. Is

England, then, the country which is unable or unwilling to pay the rate of interest which in a temporary emergency may become requisite for retaining the amount of capital proportioned to the extent of her engagements; or is England the country which has neither the firmness nor the honesty to bear the temporary pressure which may be necessary for maintaining the metallic value of her currency and for upholding the good faith of her standard?

But weakness and irresolution in the hour of trial always prove false friends to those who foolishly place reliance in them. They lead not to honour or to safety, but are the fatal guides to disgrace and danger. Monetary affairs are not exempt from this universal law. The relaxing power will prove a false and treacherous guide to the country that relies upon it. It means an increase of issues not warranted by any increase of bullion; and it will, of course, be resorted to only during an adverse state of the exchanges. But bullion goes out of the country only because it is in greater demand elsewhere than with us—thus affording conclusive proof that our currency is comparatively redundant. At such a moment to increase the issue of notes must tend to increase the redundancy of our currency, and give additional force to the causes which produce the export of bullion. The immediate effect may be a delusive appearance of relief, but the ultimate result must be to extend the mischief, and to render the final correction of it more difficult, and attainable only by a still greater sacrifice. It is important that these inevitable results of the introduction of a relaxing

power into the Act, should be clearly understood. The public otherwise, deluded with the belief that they still retain the protection and security which the Bill in its present form undoubtedly affords, may find, when the period of trial arrives, that, in adopting the relaxing power, they have surrendered the substance and grasped only the shadow.

MERCATOR.

January, 1857.

LETTER VII.

TO THE EDITOR OF "THE TIMES."

SIR,—The reasons have been already set forth on which we may confidently anticipate that the existing settlement of our monetary system will be firmly maintained. The steady force of sound principles, the clear deductions of scientific reasoning, the emphatic verdict of experience will not be hastily overruled. These considerations—each separately powerful, but deriving irresistible strength from their coincidence—must command the assent of the Government, of Parliament, and of the public. The safety of our monetary system will not again be exposed to the unregulated or haphazard operations of multiplied private issuers, acting, of course, under the influence of competition, and naturally consulting only their own interests; neither will any one great public body be entrusted with the dangerous power of creating money at its own discretion, and extending or contracting the

amount of the circulation uncontrolled by any fixed rule. The Act of 1819 affirmed the principle of restoring our paper money to its just and honest value; the Act of 1844 has given us effectual security for the faithful maintenance of that value—noble records to be inscribed on the statues which public gratitude is now raising in honour of the author of those measures; and the Parliament of 1857 will not invalidate them and attach to itself the stigma of having again plunged the country in the monetary confusion and danger, to extricate us from which has required so many painful efforts, so much patient perseverance, and such endless discussions. The fundamental principles of those measures—namely, the separation of the issue and banking departments, and the entire suppression of discretionary authority over the amount of the paper issues—will be maintained. The repeal of the Act of 1844, and a return to the incomplete system of 1819, may be regarded as impossible. It would be a most formidable retrograde step towards a suspension, or rather an entire abandonment of specie payments, and would soon terminate in that result. The people of this country are become too wise as regards their own interest, too honest as regards public principle, to tolerate such a suggestion. But modifications of some of the provisions of the Bank Charter Act may be suggested, which, involving no violation of its essential character, find favour with those who are fond of change, and therefore think that “something must be done.” Let all such propositions be received for what they are worth. It is important to understand their real effect, that the value to be obtained

may be compared with the trouble, the inconveniences, and the uncertainty which must attend the change. I will advert to one or two of these suggestions.

First, with regard to what have been called the anomalies of the Bill—the omission to apply the principle of the Bill in its strict form to the country issuers of England and also to the issuers in Scotland and Ireland, and thus to restrict the power of issuing paper money to one body exclusively. This is undoubtedly a departure from the pure principle of the Bill, acquiesced in from a regard to practical difficulties, and an unwillingness to excite, without adequate necessity, the prejudices of important classes rendered more obstinate by a sense of private interest. But has it been found by experience that the anomaly seriously impairs the efficiency of the Bill? These issuers are subjected by the Bill to some useful and really powerful restraint. They cannot nullify its objects, notwithstanding the supposed incompleteness of some of its provisions. The fluctuations of the paper money now really correspond to what would be the fluctuations of a metallic circulation. A drain of bullion we now know by experience is met by early measures of precaution and correction, which are uninterruptedly maintained until the necessary result has been secured. The great object of the Act—the protection of the bullion reserve, and the certain convertibility of the paper notes into gold on demand, is fully attained under the provisions of the Bill as they exist. The attempt to render it more consistent and complete by abolishing entirely the privilege of issue such as is at present conceded to the private banks of

England and the great banking companies of Scotland and Ireland may probably give rise to very troublesome discussions, without any adequate necessity or the reasonable prospect of any really important improvement.

2. In the opinion of some persons all private issues, whether by the Bank of England or private concerns, are inconsistent with sound monetary principles, and they will therefore propose that the privilege of issuing paper notes shall be vested exclusively in the Government. This suggestion, however, is exposed to a formidable objection. Great danger may be apprehended from associating in the mind of the people the pressure of monetary contraction with Government responsibility. Weak or dishonest Governments may yield to the pressure to which they will, of course, be subjected, and seek to obviate political difficulties, or to promote their own temporary popularity, by a fatal tampering with the solidity of the system.

The law in its present form is exposed to none of these objections. The issue department is subject to no control by the Bank of England or by the Government; the fluctuations in the amount of notes issued is determined by the positive law of Parliament enforcing a great principle; and, as neither Bank of England nor Government is vested with any discretionary power over the amount of notes to be issued, no inconvenient or dangerous responsibility can attach to them.

3. Another suggestion, the plausibility of which may probably command for it the favour of some persons who are firm supporters of all the essential principles of the Bill is that of increasing the amount of notes which may

be issued upon securities. At present, in addition to the notes issued against the bullion in deposit, notes to the amount of 14,500,000*l.* are issued against other securities. Some increase of this amount may possibly be permitted without any reasonable probability of subjecting the bullion reserve to dangerous diminution, and some small profit may thereby accrue to the Government. In this, however, consists the whole advantage to be derived from the change. No absolute increase in the aggregate amount of the circulation of the country can result from this arrangement. Whatever increase takes place in the amount of notes issued upon securities, there must be a corresponding decrease in the amount of notes issued upon bullion.

The total amount of the circulation will remain unaltered. The great laws which determine the monetary equilibrium of the commercial world assign to this country a certain amount of money. No internal arrangements to which we may resort can alter or suspend that law. We may determine for ourselves what proportion of that amount of money shall exist in the form of notes issued upon other security than that of bullion, and what amount shall be issued upon bullion; but beyond this our power does not extend. The monetary arrangements of this, as of every other country, must be subordinate to the great principles which regulate the monetary equilibrium of the world. Any attempt to resist or modify the result of these principles can result only in confusion and embarrassment.

4. Objections have been raised against the provisions

of the Bill as they now stand, on the ground that the same correctives are indiscriminately applied to all drains of bullion—that no attempt is made to discriminate and to treat a drain of bullion differently, according to the different causes from which it may originate. A pressure upon the exchanges may be caused by an excess of imports arising from over-speculation ; or by a failure of the harvest necessitating large imports of foreign grain ; or by a great demand for some article of extensive consumption, such as raw cotton ; or by foreign expenditure of the Government for warlike purposes, as on the recent occasion. In short, it is impossible to enumerate the endless variety of causes from which a disturbance in the distribution of the precious metals and a consequent drain upon our bullion reserve may spring up. Is it possible, however, to distinguish with certainty between these different causes, and to determine to which of them a drain, when it arises is attributable ? And, even if this be practicable, will it be wise or safe to suspend our precautionary or protective measures so long as the bullion, from whatever cause, is subject to a continuous diminution ? A drain of bullion may arise from the joint operation of several causes ; indeed, it is seldom otherwise. Who is to say how much of the drain arises from one cause, and how much from another cause ? Such a distinction is utterly impracticable. The exclusive purpose of the Act of 1844 is to make our paper money correspond in amount and in value with what, in the absence of paper issues, would be the metallic money of the country. Any attempt to do more than this is held

to be unsound and dangerous. A drain of bullion, whatever the cause of it, would produce a contraction of metallic money; it ought, therefore, to be met by a corresponding contraction of the paper money.

We have heard much of the "management of the circulation." It is, perhaps, an unfortunate expression, as upon the use of it appears to depend, in some degree, the fallacy we are now discussing. There ought to be no management whatever of the circulation. It must be left to regulate itself by the free action of the public paying in or drawing out gold, while the issue department confines itself to the mechanical duty of issuing notes as the gold is paid in, and cancelling notes as the gold is drawn out.

This is the simple principle of the Act of 1844.

Here let us pause and calmly survey the grounds upon which these modifications of the Bill are recommended to our confidence. The Act, in its present form, has been found sufficient for its great purpose—the protection of the bullion reserve, by means consistent with the stability of commercial credit and the progress of industrial prosperity. The bullion has been preserved from undue exhaustion, the exchanges have been subjected to sufficient control, speculation tending to a dangerous excess has been restrained, at the same time useful enterprise has met with no serious obstruction, industrial pursuits have been maintained in healthy activity, the productive powers of the country have been expanded, while the amount of the necessaries and luxuries of life distributed among the people has been prodigiously augmented. In

short, the public, as has been observed with truth, is almost tired of hearing of the soundness of trade. What, then, are the ascertained evils to be obviated, what the certain benefit to be obtained through the introduction of the suggested modifications? It is well that these questions should be carefully considered before we legislate, lest in our attempts to modify the existing law without a clear perception of the necessity of the change, or of the certainty of the advantage to result from it, we should find ourselves playing the fool's game,

“Shunning fancied ills and chasing airy good.”

MERCATOR.

January, 1857.

LETTER VIII.

TO THE EDITOR OF THE “TIMES.”

SIR,—The impossibility of repealing the Bank Charter Act, the inexpediency of subjecting it to any important modifications, the mismanagement of the circulation, and consequent danger to the safety of specie payments out of which the necessity for the Act arose, the principles upon which the Act was founded, the result which it has secured, the failure of all the sinister predictions of its opponents, the confirmation it has afforded to the anticipations of its supporters, the stability of public and private credit during the recent severe pressure upon the exchanges, the wonderful development of industrial energy and of

national prosperity which has been in almost uninterrupted progress through the twelve years during which the Act has been in force,—all these topics have passed under our review. They constitute a mass of evidence in support of the Act of 1844 to which it is needless to attempt to add further strength.

Two points, however, remain to be noticed before the discussion is finally closed. This shall be done as shortly as possible, because these letters have already occupied too large a space in your columns. Those who maintain that the Act of 1844 is too restrictive, and wish to return to the system of 1819, chiefly rely on the case of 1847. The true character of that crisis has not been analyzed with sufficient care, and therefore it has not been correctly understood by the public. It was not monetary derangement, or a failure of the Act of 1844 to accomplish its legitimate purpose. It was a case of banking mismanagement on the part of the Bank of England acting upon the community, at that moment peculiarly susceptible of alarm under vague and ignorant apprehensions of the effect of the new law. The bullion sustained no dangerous diminution of amount at that time, the notes put forth by the issue department continued to vary with the amount of bullion, the notes circulating with the public were not reduced to an unreasonably low amount, and, in fact, it was proved by the result that they were sufficient for the business and requirements of the country. Danger from undue exhaustion of the bullion is the evil against which the Act undertakes to protect the community; against an improper exhaustion of the banking reserve, and the con-

sequent inconveniences it is the duty of the Bank of England to take timely and effectual measures of precaution. The Act accomplished all its legitimate results on this occasion, and everything went well with the issue department. Not so, however, with the banking department, the regulation of which is not the proper function of the Act. The banking reserve of the Bank of England was under a process of continual diminution; the Bank, however, did not raise its rate of interest, but continued its advances as usual, until this reserve was reduced to a dangerous extremity. Sudden and violent measures then became necessary; wild alarm was everywhere excited, and the notes circulating with the public, although the total amount was high, ceased to perform their ordinary functions. All the consequences ensued which may be expected when a concern of colossal magnitude, in a critical and trying period is not conducted with corresponding foresight and prudence.

Infirmity of purpose and undue delay in the requisite precautions on the part of the Bank, arising out of previous bad habits and established prejudices, were witnessed in combined operation with nervous timidity on the part of the public, arising out of vague apprehension of a new system of monetary legislation, respecting which the most extravagant alarms had been spread abroad. The result was panic—that is, a paralysis of that mutual confidence between man and man without which the common transactions of society cannot proceed. The amount of the circulation was not insufficient; but the confidence necessary to enable the public to make a proper use of it was

in suspense. The sudden collapse necessarily resulting from the great abuse of credit, and the vast amount of imprudent speculation founded upon it, contributed no doubt to the unfortunate prostration of confidence; and it may be safely affirmed that, without the timely intervention which the Act of 1844 secured, this abuse of credit and excessive speculation would have continued longer unchecked, and that the ultimate results would have been more extended trading, embarrassment, increased prostration of public confidence, and, finally, danger of exhaustion of the bullion. The mercantile disasters of that period were inevitable under any monetary system, on account of the false state of credit which then prevailed. To these might have been added suspension of specie payments—a calamity from which the provisions of the Act of 1844, and those only, gave us any effectual security.

The course recently pursued by the Bank of England presents a striking contrast, and the public have reaped all the legitimate fruits of timely precaution and enlightened firmness on the part of that body, as well as of reasonable self-possession and confidence on their own part.

Fluctuations in the rate of interest are by many persons laid to the charge of the Act, and the measure, it is contended, has failed, because it has neither prevented great fluctuations nor maintained a general low rate of interest.

The framers and supporters of the Act never undertook to regulate the rate of interest. They knew that

interest is the price paid for the use of capital, and that that price must depend upon the proportion between the supply and the demand for capital. To regulate that proportion, or in any direct way to influence it is not an appropriate purpose of measures, the simple object of which is the proper regulation of the amount of the paper money. But, in addition to the inexpediency of any effort to regulate by law the rate of interest and its fluctuations, there is the impossibility of success in the attempt. By what means is it possible to prevent the transference of capital or money from country to country? There is a constant tendency towards an equilibrium in the value of money in the different trading towns in the world. If the rate of interest be high in Hamburg and New York and low in London, through how many varied forms will money be drawn from London to the aid of those places, securities transmitted for sale, bills sent over for discount, draughts drawn against credits, &c. Not long since, when the rate of interest rose at Hamburg to 8 per cent. all these means of drawing money from London were put into action; and the only mode by which the money market of London could be protected was a rise in the rate of interest here until it approached the level of that of Hamburg. To prevent fluctuations in the rate of interest in England it would be necessary to have the power of regulating them throughout the whole commercial world. The friends of the Act of 1844 do not pretend to be in possession of this secret.

All conquest, it has been wisely remarked by a great historian, must be ineffectual, in a light of precaution,

unless it be universal. Some neighbouring country must lie upon the frontier, and disturb by its proximity. So it is with the rate of interest under the modern facilities for international intercourse and the transference of capital. Whatever be the cause which disturbs confidence or powerfully affects the rate of interest in other countries, the vibration must be felt with us. We cannot enjoy ease, abundance of money, and low rate of interest, while our neighbours are straitened by difficulties and embarrassed by pecuniary pressure.

But upon what reasons does the assumption rest that fluctuations in the rate of interest afford presumptive evidence of anything unsatisfactory in the condition of the country in which they occur? Are they not rather the necessary accompaniments of rapid creation of wealth? A steady and unvarying rate of interest is generally the result of a torpid state of capital and of industry, while in countries rapidly advancing in prosperity by means of industrial energy, speculative activity, and commercial enterprise, there will always be fluctuations in the rate of interest. Are there any cities more progressive in material wealth and in commercial prosperity than Hamburg or New York? And in those cities the rate of interest is subject to frequent and violent fluctuations. Take, on the other hand, the case of Holland, a country of great accumulated capital, and which is adding to that accumulation by large annual savings, but in which the spirit of enterprise which generates great national progress is comparatively quiescent. Here we find the rate of interest lower and the fluctuations more restricted.

Inconsistency in their expectations is a common source of delusion with communities as well as individuals; and a stronger case of such inconsistency cannot well be conceived than that of wishing to combine the ease supposed to attend a low and unvarying rate of interest with continuous progress in all the elements of national prosperity. In our physical condition, in our intellectual character, and in all that concerns our material prosperity, the law is the same—no great result will ever spring from quiescent indulgence. Bodily health, mental vigour, national progress in prosperity and wealth, can be secured only by constant stir, unremitting struggle, competition, and rivalry, and in the never-ceasing variation of circumstances and condition which these necessarily generate. We may therefore cast aside all weak apprehensions caused by fluctuations in the rate of interest; they are indicative of energy in our commercial spirit and of progress in our national prosperity. A high rate of interest when it occurs does not necessarily arrest trading activity, and convert real prosperity into embarrassment and ruin. Upon this point we may appeal to the present condition of the country and to the course of events during the past year. It is *false* prosperity, *excessive* credit, and *over* trading which alone are seriously embarrassed by monetary pressure and a high rate of interest. Those who trade with their own capital, or who rely to a moderate extent only upon the support of credit, experience little inconvenience under such circumstances, while the bold speculators who depend for the means of supporting their

enterprises to an undue extent upon borrowed capital are inconvenienced by the increased difficulty of obtaining it and the high price they must pay for it. In producing this result does not that pressure really render good service to the community by checking the too rapid expansion of speculative transactions, thus destroying the seeds of future evil, and arresting the progress of spreading mischief? We have had monetary pressure and a high rate of interest in 1847 and 1856. In the first case it was accompanied by extensive mercantile embarrassment. In the latter we have had nothing of the kind.

What is the cause of this difference?

In 1847 the monetary pressure fell upon a state of mercantile affairs prosperous in appearance, but really unsound. Trading upon borrowed capital and credit had been carried to an undue extent. The pressure detected that unsoundness, and arrested the further spread of it.

In 1856 it has fallen upon a comparatively sound state of trade; it is therefore unaccompanied by any general embarrassment, and we hear little or no serious complaint respecting it. The outcry against the Act of 1844 as causing a degree of pressure which trade cannot bear is altogether fallacious; the pressure is, in fact, unavoidable under any monetary laws which are not inconsistent with the maintenance of specie payments. A sound state of trade not only bears the pressure, but takes no serious account of it.

An unsound state of trade feels the pressure in proportion to its unsoundness, and the very sense of the pressure proves the necessity and the usefulness of it.

I cannot venture to trespass further upon your columns, although the subject is not exhausted, nor have the considerations alluded to undergone a full examination.

In proposing to Parliament the measure of 1819 Sir Robert Peel adverted to the restoration of the money of the country to its just value as one of the distinguishing features of the reign of Elizabeth. A similar service rendered to the country by the Acts of 1819 and 1844 consecrates his own memory. Is there the Minister who will now venture to reverse the principles on which these measures rest, to roll back the tide of knowledge on these questions, and to plunge the country again in the confusion and difficulty which are inseparable from a system of paper money subjected to no fixed limitation of amount, and therefore of undefined and ever-varying value? The country is exposed to no such danger. The Government is too wise to submit such a proposition, and Parliament and the public, confirmed in their original determination by recent experience, would at once refuse to entertain it. The one single purpose of the Act of 1844 is to preserve a constant equality of value between gold and paper notes, and to render the notes at all times convertible into gold. Any objection, therefore, to our present system on the ground of its supposed stringency or unnecessary pressure upon trade or industry is, in reality, an objection to a gold circulation, or, in other words, to specie payments.

Is it the fact, then, that a metallic currency is necessarily inconsistent with national prosperity or progress? These depend upon the amount of capital, the distribution of it, and the rate of profit. In what way can a metallic

currency exercise any injurious influence on these, the true sources of national wealth? The currency forms the medium through which the command of transferable capital is passed from one person to another; but it is important not to confound the instrument of transfer with the thing to be transferred. The real difficulty during a period of monetary pressure is the deficiency of transferable capital to supply the requirements of those who have been carrying on transactions of greater magnitude and extent than they can support by their own legitimate means. A greater supply of this transferable capital for the support of concerns which have relied too much upon credit is the real want. More currency is the demand of short-sighted clamour. Not more absurd would it be in a period of dearth to clamour for more mills to grind and more carts to distribute the corn which does not exist; or in a period of drought to seek relief by multiplying the pumps when the springs are dry.

Let those who raise an outcry against the insufficiency of the amount of the circulation under the provisions of the Acts of 1819 and 1844 directly meet this question. Until they do this they must not hope to command the attention of an intelligent community.

MERCATOR.

Jan., 1857.

EXTRACTS

FROM

T H E E V I D E N C E

OF

SAMUEL JONES LOYD, ESQ.,

BEFORE THE

SELECT COMMITTEE OF THE HOUSE OF COMMONS,

ON

BANKS OF ISSUE

IN 1840.

THE Committee on Banks of Issue, which was appointed on the 10th of March, 1840, consisted of the following Members, viz. :—

Mr. Chancellor of the Exchequer, (Right Hon. T. F. Baring.)
Sir Robert Peel.
Mr. Hume.
Mr. Labouchere.
Mr. Goulburn.
Mr. Mark Philips.
Mr. O'Connell.
Sir James Graham.
Mr. Clay.
Mr. Gisborne.
Sir John Rae Reid.
Mr. Oswald.
Mr. Charles Wood.

Mr. Rickford.
Mr. John Parker (replaced on the 2nd April by Mr. Henry Warburton).
Mr. Pattison.
Mr. Herries.
Mr. Ellice.
Mr. Serjeant Jackson.
Mr. Hector.
Mr. Grote.
Sir Thomas Freemantle.
Mr. John Abel Smith.
Mr. Strutt.
Mr. Matthias Attwood.
Mr. Morrison.

SAMUEL JONES LOYD, Esq., called in, and Examined,
17th July, 1840.

2652. *Chairman*—Henry Warburton, Esq.] IN your opinion, have the various issuing bodies managed their circulation since 1833 according to sound principles?—In my opinion, the various issuing bodies have not managed their paper circulation since 1833 in conformity with sound principles.

2653. Do you apply this as well to the Bank of England as to the various provincial issuers?—Yes; I think it is true both of the Bank of England and the provincial issuers.

2654. What, in your opinion, is the sound principle according to which the circulation should be regulated?—A metallic currency, I conceive, by virtue of its own intrinsic value, will regulate itself; but a paper currency, having no intrinsic value, requires to be subjected to some artificial regulation respecting its amount. The use of paper currency is resorted to on account of its greater economy and convenience, but it is important that that paper currency should be made to conform to what a metallic currency would be, and especially that it should be kept of the same value with the metallic currency, by being kept at all times of the same amount. Now, the influx and efflux of gold is the only sure test of what

would have been the variations of a metallic currency, and, therefore, I conceive that that constitutes the only proper rule by which to regulate the fluctuations of a paper currency.

2655. What is it that you include in the term circulation?—I include, in the term circulation, metallic coin, and paper notes promising to pay the metallic coin to bearer on demand.

2656. Do you include in the circulation of the Bank of England, the reserve held by the Bank of England against its deposits?—As the accounts are at present kept, that is not included in the circulation; but under a proper separation of the accounts, I conceive that it would be included. The circulation now includes only those notes which are out of the walls of the Bank of England; under a proper separation of the accounts, it would include all notes that are out of the walls of the currency department, and, therefore, of course would include the notes that are in the till of the banking department.

2657. In case of a separation of the business of the Bank of England into two departments, one of issue and the other of ordinary banking, would not the reserve held by the banking department be a reserve in notes?—I understand the word reserve to refer to the notes which the Bank of England, as a bank, holds in its till, for the purpose of meeting the current demands of its banking business.

2658. In the case of private bankers what proportion of the deposits do you consider it prudent for them to hold as reserve?—It is impossible to give any answer to

that question; it depends upon the particular circumstances of each particular case, and can only be adjusted by individual experience.

2659. Are you aware what proportion of their deposits the Bank of England hold as reserve against those deposits?—I apprehend that there is no fixed proportion; that it must vary with varying times and varying circumstances.

2660. *Sir Robert Peel.*] Is there no fixed proportion, do you think, between the reserves and the deposits of the Bank of England?—I apprehend no fixed proportion; at one time it is larger than another, according to varying circumstances.

2661. *Chairman.*] In your definition, then, of the word circulation, you do not include deposits?—No, I do not.

2662. Do you include bills of exchange?—No, I do not.

2663. Why do you not include deposits in your definition of circulation?—To answer that question, I believe I must be allowed to revert to first principles. The precious metals are distributed to the different countries of the world by the operation of particular laws, which have been investigated and are now well recognized. Those laws allot to each country a certain portion of the precious metals, which, whilst other things remain unchanged, remains itself unchanged. The precious metals, converted into coin, constitute the money of each country. That coin circulates sometimes in kind; but in highly advanced countries it is represented, to a certain

extent, by paper notes, promising to pay the coin to bearer on demand ; those notes being of such a nature, in principle, that the increase of them supplants coin to an equal amount. Where those notes are in use, the metallic coin, together with those notes, constitutes the money or currency of that country. Now, this money is marked by certain distinguishing characteristics ; first of all, that its amount is determined by the laws which apportion the precious metals to the different countries of the world ; secondly, that it is in every country the common measure of the value of all other commodities, the standard by reference to which the value of every other commodity is ascertained, and every contract fulfilled ; and thirdly, it becomes the common medium of exchange for the adjustment of all transactions, equally at all times, between all persons, and in all places. It has further the quality of discharging those functions in endless succession. Now, I conceive, that neither deposits nor bills of exchange in any way whatever possess those qualities. In the first place, the amount of them is not determined by the laws which determine the amount of the precious metals in each country ; in the second place, they will in no respect serve as a common measure of value, or a standard by reference to which we can measure the relative values of all other things ; and in the next place, they do not possess that power of universal exchangeability which belongs to the money of the country. If the Committee will allow me to refer to it, there is a passage in the report of the French Chamber, which has recently been appointed to inquire into a

subject very similar to that which this Committee is now investigating, which seems to me to put the point of the universal exchangeability of money in a very striking way.—“ Si l'on réfléchit en effet aux innombrables transactions commerciales qui s'opèrent chaque jour, depuis celles qui doivent fournir aux plus modestes consommations, jusqu'à celles que multiplient les spéculations les plus entreprenantes du commerce international, on s'aperçoit aisément qu'elles ne s'accompliraient pas sans le secours d'une valeur intermédiaire qui puisse être mise successivement en rapport avec toutes les autres valeurs, et servir entre elles de moyen d'estimation et d'échange.”

2664. Why do you not include bills of exchange in circulation?—I exclude bills of exchange, for precisely the same reasons that I have stated in my former answer for excluding deposits. There is another passage in the same report, which appears to me to show very clearly that the French Chamber have fully appreciated the distinction between bills of exchange and money. “Tout engagement par écrit de payer une somme due a pu devenir ce signe du numéraire; le signe a acquis quelques uns des avantages de la monnaie circulante, lorsque, comme le billet à ordre et la lettre de change, il a pu être transmis par la voie facile et prompte de l'endossement. Mais que d'entraves encore! Il ne représente pas à tout moment, pour son détenteur, la somme pour laquelle il a été souscrit, elle peut n'être payable qu'à un terme éloigné, pour le réaliser immédiatement il serait nécessaire de la céder. Trouvera-t-on quelqu'un qui soit assez confiant pour l'accepter? On ne le transmettra

qu'en le garantissant de sa signature ; c'est une obligation éventuelle que l'on contracte soi-même, et sous le poids de laquelle jusqu'au jour de l'échéance, on sentira son crédit gêné. On n'est pas toujours disposé à révéler la nature de ses affaires par les signatures que l'on met en circulation. Ces inconvénients devaient conduire à trouver un signe de numéraire plus actif encore et plus commode, qui participât, comme la lettre de change et le billet à ordre, des qualités du numéraire métallique, puisqu'il n'a d'autre mérite que de le représenter, mais qui permet de s'en procurer à tout moment ; qui comme la pièce de monnaie, se transit de main en main, sans avoir besoin d'être garanti, sans laisser de traces de son passage. Le billet au porteur et à vue, émis par des associations puissantes, formées sous l'autorisation et agissant sous la surveillance continue des gouvernements, a paru présenter ces avantages. De là les banques de circulation."

2665. Under similar circumstances, will the aggregate amount credited to depositors in bankers' books bear some relation to the quantity of money in the country?—During temporary fluctuations in the amount of circulation, all other things remaining unchanged, I conceive the amount of deposits will be affected by such fluctuations.

2666. Is the amount of bills of exchange dependent in some degree on the quantity of money?—I apprehend that it is dependent in a very great degree. I consider the money of the country to be the foundation, and the bills of exchange to be the superstructure raised upon it ;

I conceive that bills of exchange are an important form of banking operations, and the circulation of the country is the money in which these operations are to be adjusted; any contraction of the circulation of the country will act of course upon credit; bills of exchange being an important form of credit will feel the effect of that contraction in a very powerful degree; they will, in fact, be contracted in a much greater degree than the paper circulation; this point was adverted to in the inquiries of the Committee of 1832, and the question was put in a very pointed form to Mr. Burgess, the secretary of the Country Bankers' Association, and I have therefore extracted the question put, and his answer to it: "Is it the result of your experience that, upon a contraction of the issues of the Bank taking place, the amount of bills of exchange is also narrowed, and is it in the exact ratio, or in a very increased ratio?—It is in a very increased ratio;" I believe that answer to be perfectly correct.

2667. Sir *Robert Peel*.] What are the elements which constitute money, in the sense in which you use the expression, "quantity of money;" what is the exact meaning you attach to the words "quantity of money—quantity of metallic currency?"—When I use the words quantity of money, I mean the quantity of metallic coin and of paper notes promising to pay the coin on demand, which are in circulation in the country.

2668. Paper notes payable by coin?—Yes.

2669. By whomsoever issued?—Yes.

2670. By country banks as well as other banks?—
Yes.

EXTRACTS

FROM

THE EVIDENCE

OF

SAMUEL JONES LOYD, ESQ.,

BEFORE THE

SELECT COMMITTEE OF THE HOUSE OF COMMONS,

ON

BANKS OF ISSUE

IN 1840.

2671. *Chairman.*] Would this superstructure, consisting of sums credited to depositors in bankers' books and bills of exchange, equally exist, although no notes payable in coin on demand existed in the country?—Yes, I apprehend that every question with respect to deposits, and with respect to bills of exchange, is totally distinct from the question which has reference to the nature of the process of substituting promissory notes in lieu of coin, and of the laws by which that process ought to be governed. If the promissory notes be properly regulated, so as to be at all times of the amount which the coin would have been, deposits and bills of exchange, whatever changes they may undergo, would sustain those changes equally, either with a metallic currency, or with a paper currency properly regulated; consequently, every investigation respecting their character or amount is a distinct question from that which has reference only to the substitution of the paper notes for the coin.

2672. There would be no reason why, if there were no notes payable in coin on demand, the amount of this superstructure should be less than it now is, with a mixed circulation of specie and of notes payable on demand?—None whatever; I apprehend that upon the supposition that the paper notes are kept of the same amount as the metallic money, the question of the superstructure, whether of deposits or of bills of exchange, remains precisely the same.

2673. That answer takes for granted that, in the first case, the metallic currency, and in the second case, the

metallic currency plus the notes payable on demand, are the same in quantity?—Yes.

2674. *Sir Robert Peel.*] You suppose the notes payable on demand to displace an amount of coin precisely equal to those notes?—They ought to do so, under a proper regulation of the paper money, otherwise they are not kept at the same value as coin.

2675. *Mr. Attwood.*] Would you consider that the superstructure of bills of exchange, founded entirely upon a metallic currency, might at particular times become unduly expanded?—The answer to that question depends entirely upon the precise meaning of the word, unduly. I apprehend, undoubtedly, that it is perfectly possible that credit, and the consequences which sometimes result from credit, viz., over-banking, in all its forms, and the over-issue of bills of exchange, which is one important form of over-banking, may arise with a purely metallic currency; and it may also arise with a currency consisting jointly of metallic money and paper notes promising to pay in coin; and I conceive further, that, if the notes be properly regulated, that is, if they be kept of the amount which the coin otherwise would be, whatever over-banking would have arisen with a metallic currency, would arise, and to the same extent, neither more nor less, with money consisting of metallic coin and paper notes jointly.

2676. May not over-banking and over-issue of bills of exchange, forming a superstructure based upon money composed of metal and paper notes, derange the certainty of the notes being duly paid in gold?—I apprehend that

if the paper notes be properly regulated, according to the sense which I have already attributed to that expression, and if a proper proportion of gold be held in reserve, the solidity of the basis cannot be disturbed; that is, that if there be a proper contraction of the paper notes as gold goes out, the convertibility of the paper system will be effectually preserved by the continually increasing value of the remaining quantity of the currency, as the contraction proceeds.

2677. *Chairman.*] Will you state what deviations there have been from sound principle in the management of the circulation since the year 1832?—Whenever the aggregate paper circulation of the country fails to conform to the fluctuations of the bullion, then mismanagement is justly said to occur; and I have, therefore, drawn out a paper which contains a statement of the variations in the bullion, from the end of the year 1833 to the end of the year 1839, which will enable us to contrast the variations in the bullion, first with the variations in the circulation of the Bank of England, next with the variations in the circulation of the country issuers, and thirdly, with the variations in the aggregate circulation, formed by adding the Bank and country circulations together.— [*The Witness delivered in the same, which was read as follows:*]

	Bullion.	Bank Circulation.	Country Circulation.	Aggregate Circulation.
1834 :	£	£	£	£
1 January	9,948,000	18,216,000	10,152,000	28,368,000
1 April	9,431,000	19,097,000	10,191,000	29,288,000
1 July	8,695,000	18,895,000	10,518,000	29,413,000
23 September....	7,695,000	19,126,000	10,154,000	29,280,000
18 December	6,720,000	18,304,000	10,659,000	28,963,000
1835 :				
7 April	6,329,000	18,591,000	10,420,000	29,011,000
30 June	6,219,000	18,315,000	10,939,000	29,354,000
22 September....	6,261,000	18,240,000	10,429,000	28,669,000
16 December	6,626,000	17,321,000	11,134,000	28,455,000
1836 :				
5 April	7,801,000	18,063,000	11,447,000	29,510,000
1 July	7,362,000	17,899,000	12,202,000	30,101,000
22 September....	5,719,000	18,147,000	11,733,000	29,880,000
15 December	4,545,000	17,361,000	12,011,000	29,372,000
1837 :				
4 April	4,071,000	18,432,000	11,031,000	29,463,000
27 June	4,750,000	18,202,000	10,872,000	29,072,000
19 September ..	6,303,000	18,814,000	10,142,000	28,956,000
14 December	8,172,000	17,998,000	10,870,000	28,868,000
1838 :				
3 April	10,126,000	18,987,000	10,924,000	29,911,000
26 June	9,722,000	19,047,000	11,745,000	30,792,000
18 September....	9,615,000	19,665,000	11,364,000	31,029,000
13 December	9,362,000	18,469,000	12,225,000	30,694,000
1839 :				
2 April	7,073,000	18,371,000	12,259,000	30,630,000
25 June	4,844,000	18,101,000	12,275,000	30,376,000
17 September	2,816,000	17,960,000	11,084,000	29,044,000
12 December	2,887,000	16,732,000	11,422,000	28,154,000

* * * * *

2680. Is this return framed from the average returns?
—It is.

2681. Do the average returns afford sufficient means
of judging of the fluctuations from time to time?—I
cannot say that the average returns do convey the precise

information that I think ought to be laid before the public. It is very clear that average returns necessarily conceal all the salient points of the case ; they do not set forth the maximum or the minimum amount of fluctuation ; consequently, they do not enable you to ascertain what is the full extent of the fluctuation. They also conceal the precise period of fluctuation, and therefore they very materially interfere with any attempt to trace the connexion between the fluctuations of the Bank issues and the country issues. Average accounts have a tendency to reduce the figures to an uniform and uninteresting level : it is very true that on many points your judgment ought to be formed by looking at the average state of things, but even in those cases I think it is very material that the public should be enabled to form their own judgment of the average from a knowledge of what is the actual state of things. I conceive that it is not by withholding any information, still less by garbling it, which an average account may be said in one sense to do—it is not by showing any doubt of the competence of the public to exercise a sound judgment, that you will create an intelligent public opinion ; which is the thing wanted, in order to put the paper circulation upon a safe footing.

2682. If the accounts published by the Bank are to furnish a guide to merchants, manufacturers and others, as to the conduct of their business from time to time, is it not most essential that you should give them a statement of the actual accounts of the Bank at short intervals ?—I think, on every account, it is desirable that the

monthly statements should be actual statements, and not average statements.

2683. Referring to the paper which you have delivered in, what was the period of the first drain of gold?—The first drain of gold, subsequently to the arrangement of 1832, commenced, I think, in the beginning of 1834, and it proceeded, with a slight interruption for a short period, down to the early part of 1837, when it terminated in what is commonly called a commercial crisis.

2684. When did any interruption to the drain occur?—The interruption to the drain occurred from June, 1835, to April, 1836, when the gold increased in some degree.

2685. Did the Bank contract its circulation during that interruption to the drain?—Yes; the circulation of the Bank underwent a slight contraction during that return of the bullion.

2686. Will you state the amount?—On June the 30th, 1835, the bullion was at 6,219,000*l.*; in April, 1836, it had risen to 7,800,000*l.*

2687. Will you state the contraction in the Bank of England circulation?—The Bank of England circulation in June, 1835, stood at 18,315,000*l.*, and on April the 5th, 1836, it stood at 18,063,000*l.*

2688. During the same periods was there a contraction or an expansion in the country circulation?—There was during that period a small increase in the country circulation; at the same period, in June, 1835, it stood at 10,939,000*l.*; and in April, 1836, it stood at 11,447,000*l.*

2689. What was the effect upon the aggregate circulation?—The aggregate circulation increased by a small sum; it was at 29,254,000*l.* in June, 1835, and in April, 1836, it was 29,510,000*l.*

2690. When and how did this drain terminate?—The drain terminated in the early part of the year 1837; it terminated in a comparatively exhausted state of the bullion, and there was a considerable degree of commercial pressure, and of public alarm.

2691. Will you compare the commencement with the termination of that period, and state the amount of the bullion, the Bank of England circulation, the country circulation and the aggregate circulation on the 1st January, 1834, as compared with the 4th April, 1837?—On the 1st of January, 1834, the bullion stood at 9,948,000*l.*, and in April, 1837, it stood at 4,071,000*l.*, being a diminution of little less than six millions; the Bank circulation at the corresponding periods stood in January, 1834, at 18,216,000*l.*, and in April, 1837, at 18,432,000*l.*; the country circulation stood in January, 1834, at 10,152,000*l.*, and in April, 1837, at 11,031,000*l.* The effect upon the aggregate circulation was, that at the beginning of the drain it stood at 28,368,000*l.*, and in April, 1837, it stood at 29,463,000*l.*, being an increase of about 1,100,000*l.*

2692. During the greater part of that period, how did the country circulation conform to the reduction in the bullion?—The country circulation did not conform at all to the reduction in the bullion; in the beginning of the drain the country circulation stood at its minimum

point, 10,152,000*l.*, and in the middle of 1836 it had reached 12,200,000*l.*, and from the middle of 1836 to the beginning of 1837 it fluctuated from that down to 11,000,000*l.*

2693. On December 15th, 1836, the country circulation stood at 12,011,000*l.*, did it not?—Yes.

2694. So that up to the very verge of the crisis, the country circulation remained at a high point, as compared with what it stood at on the 1st of January, 1834?—Yes.

2695. As the statement of the accounts on January the 1st in any year may not afford a fair standard of comparison, have you, for the purpose of instituting a fair comparison, taken the amount on the 1st of April in each successive year from 1834 to 1837?—I have; the country circulation appears, on the 1st of April, 1834, to be 10,191,000*l.*; on the 7th of April, 1835, it is 10,420,000*l.*; on the 5th of April, 1836, it is 11,447,000*l.*; on the 4th of April, 1837, it is 11,031,000*l.*

2696. When was the period of a full amount of treasure attained subsequently to that crisis?—I see by this paper that on the 3rd of April, 1838, the bullion stood at 10,126,000*l.*, which we may consider, I presume, to be a period of full treasure.

2697. Is that the period from which you may date the commencement of another drain of treasure?—Yes; according to those accounts, the drain appears to have commenced at that period, and to have continued down to the autumn of 1839, proceeding very gently through the year 1838, and with great intensity through the year 1839.

2698. Will you state the amount of treasure of the Bank of England at the commencement and at the close of that drain?—In April, 1838, the bullion was 10,126,000*l.*, and in September, 1839, the bullion was 2,816,000*l.*

2699. How did the circulation of the Bank of England and the country issuers, and the circulation in the aggregate, conform to that drain upon the treasure of the Bank of England?—The Bank of England circulation on the 3rd of April, 1838, stood at 18,987,000*l.*, and in September, 1839, it stood at 17,960,000*l.*; the country circulation stood on the 3rd of April, 1838, at 10,924,000*l.*, and in September, 1839, it stood at 11,084,000*l.*; the aggregate circulation, therefore, was in April, 1838, 29,911,000*l.*, and in September, 1839, it was at 29,044,000*l.* But I would submit to the Committee, that for the purpose of instruction with regard to the fluctuations in the different circulations, we ought to have taken the June quarter instead of the September quarter; we took the September quarter because that was the time at which the bullion was reduced to its minimum, but the real action, by which the drain of bullion was checked, occurred about the month of June. At that time there arose a state of great public alarm, which acted in a manner tantamount to a contraction of the circulation; the result of this state of alarm was a diminution in the extent of transactions, to which succeeded, as an effect, not as a cause, a contraction of the circulation of the different issuing parties. To ascertain the effect which the condition of the circulation really produced upon the drain of bullion, we ought

to look at the state of that circulation in the month of June, before that public alarm had begun to produce the effects to which I have alluded.

2700. Which of the two circulations, that of the Bank of England, or that of the country issuers in the aggregate, began to contract soonest, in conformity with the reduction of the treasure of the Bank?—According to my judgment I should say, that neither circulation was contracted for the purpose of rectifying the drain of bullion; the Bank of England circulation does not appear to me, from the beginning of 1838 to June, 1839, to have undergone any contraction at all, and the country circulation appears to have undergone a considerable increase. The return of the bullion did not arise from a contraction of the circulation by either party; it arose from the state of alarm on the part of the public; the only voluntary act on the part of the Directors of the Bank of England was raising the rate of interest.

2701. Take the two periods of June the 26th in 1838, and June the 25th in 1839, which you say is the proper date to refer to; state the amount of bullion at the two periods, the amount of the Bank of England circulation, the country circulation, and the circulation in the aggregate?—On June 26th, 1838, the bullion was 9,722,000*l.*; on June 25th, 1839, it was 4,344,000*l.*; the Bank circulation at those two periods was, at the first, 19,047,000*l.*; at the second, 18,101,000*l.* The country circulation was, in the first period, 11,745,000*l.*, and in the second period, 12,275,000*l.*; the aggregate circulation at the first period was 30,792,000*l.*, and at the second period, 30,376,000*l.*

2702. Have you looked into the management of the circulation during any drains prior to 1832?—Yes; subsequently to the resumption of cash payments, there were two drains upon the bullion, previously to those we have alluded to; one was the drain that terminated in the crisis of 1825, and the other was the drain from 1830 to 1832. On the other side of the paper which I have put in, I have drawn up a statement of the two periods, prepared, so far as relates to the Bank of England, from Accounts No. 83 and No. 88 of the Appendix to the Report of the Bank Charter Committee of 1832.

	Bullion.	Circulation.	Lord Liverpool's Estimate: Country Issues.	Aggregate Circulation.
1823 :	£.	£	£	£
26 November ..	13,761,000	19,400,000	4,000,000	23,400,000
1824 :				
26 February	13,782,000	19,736,000	6,000,000	25,736,000
May	13,007,000	19,149,000	6,000,000	25,149,000
August	11,990,000	20,293,000	6,000,000	26,293,000
November ..	11,448,000	20,850,000	6,000,000	26,850,000
1825 :				
February	8,857,000	21,060,000	8,000,000	29,060,000
May	6,456,000	19,653,000	8,000,000	27,653,000
August	3,683,000	19,290,000	8,000,000	27,290,000
November ..	3,012,000	17,464,000		
1826 :				
February	2,309,000	24,955,000		
1830 :			There are no authentic returns of the country circulation for this period; but the issue of 1 <i>l.</i> and 2 <i>l.</i> notes was to cease by Act of Parliament in 1833, and there is every reason to believe that a contraction of the country issues, in preparation for this event, was in progress.	
26 May	11,418,000	21,078,000		
August	11,109,000	21,082,000		
November ..	9,329,000	19,300,000		
1831 :				
February	8,190,000	19,650,000		
May	7,635,000	18,224,000		
August	6,396,000	18,465,000		
November ..	5,155,000	17,396,000		
1832 :				
February	5,287,000	18,143,000		
May	4,919,000	17,777,000		

With regard to the country circulation, we have not for those periods such returns as we have for the period from 1833 downwards. I have therefore taken, for the period from 1823 to the end of 1825, the estimate which Lord Liverpool made of the country issues. There have been various estimates made of the increase of the country issues at that time; Mr. Tooke, in his work, estimates it at seven millions; Lord Liverpool estimates it at four millions: he estimates the country issues to have been four millions in the year 1823, six millions in the year 1824, and eight millions in the year 1825. A further estimate was laid before the Committee of 1832, by Mr. Burgess, the Secretary to the Country Bankers' Association, which makes the increase very much less, about 17 per cent. only, but he admits that during that period the country issues increased from their lowest point to their highest point. I apprehend the fact to be, that it is quite notorious that there was, at that period, a large expansion of the country issues.

2703. You trace the aggregate circulation from November the 26th, 1823, to August, 1825?—Yes; the crisis took place between August and November, 1825.

2704. Will you state the bullion at the commencement and at the termination of that drain?—The bullion stood on the 26th of November, 1823, at 13,761,000*l.*; in August, 1825, it stood at 3,683,000*l.*; and in November at 3,012,000*l.*

2705. Will you state the circulation at the same periods?—The Bank of England circulation stood in December, 1823, at 19,400,000*l.*; in August, 1825, at

19,290,000*l.*; and in November it fell down to 17,464,000*l.*

2706. State the amount of country circulation at those periods, as estimated by Lord Liverpool?—I have put the country circulation, according to Lord Liverpool's estimate, at 4,000,000*l.* in the year 1823; at 6,000,000*l.* in the year 1824, and at 8,000,000*l.* in the year 1825.

2707. What is the amount of the aggregate circulation at the commencement and the end of that period?—Calculating the country circulation in the way I have stated, it gives this result as the aggregate: in the year 1823, it would stand at 23,400,000*l.*; in August, 1825, it would stand at 27,290,000*l.*

2708. During this period does the Bank of England circulation appear to have conformed to the drain?—No, it appears that during this period a very severe drain of bullion was allowed to continue for two years, without any contraction on the part of the Bank of England, and with a very considerable increase on the part of the country issuers, and therefore, of course, with a considerable increase of the aggregate paper circulation of the country.

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2711. *Chairman.*] The termination of the drain was a state of extreme panic?—Yes, what is well known as the panic.

2712. Is there any subsequent drain, from 1830 to 1832, to which your attention has been called, and in which the circulation of the Bank did at an early period conform to the drain of bullion?—The circumstances

attending the drain, from the year 1830 to 1832, seem to me to be important and full of instruction. On the 26th of May, 1830, the bullion appears to have stood at 11,418,000*l*. In May, 1832, it was reduced to 4,919,000*l*. During that period the circulation of the Bank of England was contracted from 21,078,000*l*. in May, 1830, to 17,770,000*l*. in May, 1832. With respect to the country circulation during those years, there are no returns, but it is a circumstance perfectly well known, that during that period, the suppression of the small note country circulation, consisting of one and two pound notes, was in the course of operation; and I believe that no person who has given his attention to the subject, entertains the least doubt that the country circulation was at that time undergoing a diminution in amount. This drain was certainly a drain of no small importance. Mr. Norman, in his evidence of 1832, stated "hardly ever more causes united to produce an extensive drain, than upon the last occasion," referring to the period from 1830 to 1832, Mr. Horsley Palmer, in his pamphlet published three years ago, alludes to this period, during which he was Governor of the Bank; the account he gives of the progress of this drain, of the mode in which it terminated, and of the effect produced by the counteracting measures which were resorted to, is in these words: "Although during this period the bullion in the Bank was diminished from twelve millions to five millions, yet, in the progress of this reduction, as there was no excitement, and no undue credit given by the banks in the interior of the country, the interest of

money gradually rose from $2\frac{1}{4}$ to 4 per cent. ; and then, without discredit or distrust of any kind, the bullion returned into the coffers of the Bank, and money nearly resumed its former value."

2713. From contrasting, then, the conduct of the Bank at this period, from 1830 to 1832, with its conduct at the period of the three other drains, and considering that it was not attended with such violent results as those other drains were, are you led to infer that the wisest course for the Bank to pursue, as being that which is ultimately attended with the least amount of evil consequences to the mercantile interests of the country, is, that so soon as a drain commences, the Bank should operate on the exchanges by diminishing its issues?—Undoubtedly, that is the conclusion to which I come ; my object in alluding to the drains of the four periods in question ; namely, the drain terminating in the crisis of 1825, the drain which continued from the year 1830 to the year 1832, the third drain, which began in the end of the year 1833 and terminated in the year 1836, and the last drain, which began in 1838 and ended in the autumn of 1839, has been for this purpose ; to show that of those four drains, three of them were not met by any contraction of the paper circulation of the country ; and those three drains all terminated in a severe crisis, in a very exhausted state of bullion, in great commercial difficulties, and in a state of general alarm respecting the safety of our monetary system ; but that the fourth drain, namely, that from 1830 to 1832, was met by a contraction on the part of the Bank of England, bearing about the same pro-

portion to the amount of bullion lost which the issues of the Bank of England bear to the aggregate paper issues of the country; the country issues at that particular period being under a legislative action which, no doubt, necessitated a reduction on their part; the result was, that the drain passed off, in the words of Mr. Horsley Palmer, "without discredit or distrust of any kind." It is also remarkable, with respect to those drains, that the three which terminated in a crisis, whilst they were not met by any contraction on the part of the Bank of England, were preceded in each case by an expansion of country issues from their lowest point to nearly their highest point; and it is also further remarkable that the drain of 1825, which terminated in the severest crisis of the four, and in which the bullion was reduced to much the lowest point, began upon a reserve of bullion considerably higher than that which any of the other crises began upon. The inferences from these facts seem to me to be so clear, that they do not require stating.

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2717. Mr. *Attwood*.] Assuming that the Bank, in June, 1838, when her bullion stood at 9,700,000*l.*, had possessed a reserve of bullion to double that amount, and had pursued, when her bullion commenced to be reduced, the same measures of contraction which she actually did pursue, would there have existed in September, 1839, any danger, in your opinion, of the Bank not being able to convert its notes into bullion?—I apprehend that the stoppage of the drain of the years 1838 and 1839 was not effected by the contraction of the paper circulation; and

it appears to me that that is pretty obvious from the returns before us. The stoppage of the drain, I believe, arose from a great state of public alarm, which tended to render a certain quantity of circulating medium less effective for its purposes. That alarm arose principally from the knowledge on the part of the public of the very exhausted state of the bullion, in some degree aided by the action of the Bank of England in raising its rate of interest. I attribute the stoppage of the drain of 1839 to those two circumstances. Now, if the Bank had held a larger amount of bullion, commencing, for instance, in the year 1838 with 20 millions of bullion instead of 10, my first apprehension is, that she would not in that case have raised the rate of interest even at the late period at which she did resort to that measure. My second apprehension is, that that state of public feeling which was really the protecting cause, would not have come into play so soon as it did; that consequently the undue state of our circulation would have been prolonged for a greater period of time, and that, during that prolongation, speculation and an undue range of prices would have had a longer existence, and consequently that the catastrophe at the end would have been much more severe. And I must also add this remark, that if it is assumed that we start with a certain, say a very large, amount of bullion, and that a large proportion of that bullion is drained out, then, of course, for the purpose of restoring us to our proper state, a very large amount of bullion must be recovered. To effect this, I conceive that contraction will be necessary, and the extent of that contraction

will be proportionate to the amount of bullion to be recovered.

2718. Will you be so good as to direct your attention to the gist of the question, which was, whether the Bank, if it had that large amount of bullion, would have been in a secure state if it had taken all the measures which it did take, with a view to contract the circulation or to operate upon prices?—The only measure which the Bank took, was that of raising the rate of interest; and whether that measure of itself alone, acting in concurrence with a very large stock of bullion, would have been sufficient to stop the drain, I confess I am unable to say; but I should entertain great doubt; and it may also be doubted whether, with a large stock of bullion, the recourse to that measure would not have been still further delayed.

2719. Will you take into consideration all the other circumstances, independent of the action of the Bank, by which the drain was finally stopped, as well as the measures adopted by the Bank; and then say whether the Bank would have been in a secure state with 12,700,000*l.* in its coffers, in September, 1839?—I have already stated that the main circumstance which I am now called upon to take into consideration was the alarm prevalent upon the public mind. Now, that circumstance could not co-exist with a very large store of bullion in the hands of the Bank. It was an apprehension in the mind of the public, that the treasure of the Bank was in an exhausted state, and that the Bank would probably be compelled for self-protection to resort to sudden and very stringent measures of contraction, which produced alarm

in the public mind, and that alarm was the great cause of the check put upon the further drain of bullion.

2720. *Chairman.*] Is there any reason to suppose that what is now deemed a proper amount of bullion at a period of full currency, would be insufficient, if the principle of management which you have recommended were applied?—Looking back to all the periods which we have had under discussion, I see no reason whatever to infer from the events of those periods that the amount of bullion, upon which the Bank has been in the habit of acting, would be insufficient to afford security, if it was properly protected by a contraction of the circulation, commencing with the drain ; and I do not see any reason to suppose that a larger amount of bullion not so protected, would be sufficient for that purpose.

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2722. You have shown that the issues of the country banks do not conform to those of the Bank of England ; do you consider that the Bank of England has any efficient control over the issues of the country banks?—The Bank of England has no direct and immediate control over the issues of the country banks ; it has an ultimate control, acting through its effect upon credit and upon prices ; but it appears to me that all the issuers of paper money ought to act concurrently with each other, not one in obedience to another. It appears to me that they ought all to be joint controllers of the money operations in the country ; not one party controlled by the other.

2723. Does a considerable time elapse, before the country banks conform to the direction in which the

Bank of England is acting?—Perhaps I can best give an answer to that question by reading a question and the answer which was given by Mr. Hudson Gurney before a Committee of the House of Lords in 1819. No person could have had more experience practically in the management of a large paper circulation than Mr. Hudson Gurney. The question he was asked was, “Is the amount of your issues limited by the greater or less plentiful issues of the Bank of England?” The answer was, “Certainly not, immediately; mediately they may, as affecting prices.” Of course, if the control is to come through the action upon prices, there must be considerable intervening delay.

2724. The same is manifest, is it not, from the tables you have given in?—Yes; I think the examination of the statements in those papers would show the same result.

2725. Do you consider it expedient that some control should be exercised by the Government over the issues of all the issuers of notes payable on demand?—It seems to me unavoidable that control, either direct or indirect, must be exercised over all the paper issues of the country. If the control is indirect, of course it is slow; it is also uncertain in its extent, and, in effecting it, there must be an additional and unnecessary pressure upon the community: that would not arise if the control was immediately upon the issues themselves; therefore, it appears to me, that a direct control is more advantageous to the public interests and more safe for the object in view than an indirect control.

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2726. How would your rule for the management of the currency, making it expand and contract with the increase and diminution of the bullion, have operated during the period of the drain from 1833 to 1837, and during the drain from 1838 to 1839?—It appears to me that it would have operated in the most eminently beneficial manner. In the first place, it would have substituted a contraction in the early stage of the drain, in the place of a contraction in a late stage of the drain; it would have produced a regulation that depended upon principle, instead of a regulation that depended upon panic, and therefore was incapable of being measured or regulated by any fixed rule. The contraction, upon that supposition, would have commenced in the early stage of the drain, before speculation and the rise of prices had reached its full height; and it would also have commenced before the internal drain had sprung up. Now, it is a very remarkable and very important phenomenon attending these drains, that the drain always goes on for some length of time, before prices, and speculation, and over-trading, and over-banking have reached their maximum point; and that the last stage of the drain is always characterized by the springing up of internal alarm, which gives rise to an internal drain. Now, an internal drain is clearly one that can be met by no principle; there is no method of meeting it but by paying out gold, till the drain ceases. It appears to me that contraction applied in the early stages would be applied when it could be borne without inconvenience to the community, and that it would necessarily tend to counter-

act and check in their early growth those tendencies, viz. to speculation, over-trading, excessive rise of prices, which by their undue expansion under our present system, and the consequent violence of the subsequent collapse, produce the extreme intensity which characterizes the commercial crisis of this country. I think that this view might be confirmed very completely, by following the supposed application of it through the period from 1834 downwards. For instance, take even the very first year—we know that the mischief that subsequently arose in the year 1837 was principally produced by three circumstances, namely, by excessive credits given by this country to the United States, by excessive investments made in foreign securities, and by the very rapid and excessive expansion of the joint stock bank system. Those were the three circumstances that preceded the crisis of 1837, and tended to produce its mischief. Now, those three things were growing up during the preceding years, and the question is, if, at the commencement of the drain of bullion in the beginning of the year 1834, we had then applied contraction of the circulation, to what extent the growth of those three circumstances would have been arrested in their early stage, and the evils which afterwards ensued would have been prevented or mitigated. Now, during the year 1834, the bullion underwent a diminution of 3,200,000*l.*, during the same time the aggregate paper circulation underwent an increase of 600,000*l.*; if, during that year, the paper circulation had been contracted in correspondence with the bullion, it would have stood at about three millions and a half lower

than it did stand at the end of the year 1834. That, of course, is upon the supposition that the drain during 1834 would have gone, in the face of a contracted circulation, to the extent to which it did go, which probably would not have been the case; but I apprehend that no person can doubt that if that contraction, or anything at all approaching to that contraction, had been resorted to in 1834, the great mischief that burst out in the year 1837 would have been obviated. The drain would not have gone to the same extent; undue credits to America, undue investments in foreign securities, and the undue expansion of the joint stock bank system would all have been limited in so great a degree as to have reduced the events of 1837 to that which characterized the events of 1832: that, in fact, the thing would have passed off in 1837, as it did in 1832, without "discredit or distrust of any kind."

2727. *Mr. Attwood.*] Would that have been done if in 1834 the Bank had decreased its circulation in a degree correspondent with the reduction of their bullion?—I am speaking of the reduction of the aggregate paper in circulation, not the Bank of England paper alone. I conceive, that if, during the year 1834, the aggregate paper circulation had been contracted in correspondence with the bullion, the Bank of England and the country issuers, each contracting their relative proportions, a stop would thereby have been put to those circumstances which, by their prolonged continuance, gave rise to the crisis of 1837.

2728. Since the country circulation is mediately, though not immediately, controlled by the circulation of

the Bank of England, would you not have anticipated some additional security to have been attained, if the Bank of England in the year 1834 had reduced its circulation in proportion to its loss of bullion?—It is very difficult to say what, upon any supposition, the details of which are not before us, would have been the effect of leaving the contraction of the country circulation to be effected by the controlling power of the Bank of England. We generally find that the first effect of a contraction of the Bank circulation is an increase of the country circulation; after that comes a pressure upon credit and upon prices, arising from the contraction of the Bank circulation; that leads, at a later period, to the contraction of the country circulation, and every contraction of the country circulation, effected by this means, comes late in point of time. It comes in an irregular manner, because the precise extent of it cannot be measured, and the intermediate action of the Bank of England necessarily produces a pressure and inconvenience to the community, which I think would be obviated, if the country circulation acted concurrently with the Bank circulation, and not by coercion of the Bank.

2729. You have stated that the error was committed by the issuers of paper money in the year 1834, in not making a reduction of their issues in correspondence with the loss of bullion; could the country bankers be expected to make such a reduction in their circulation, if none was effected previously in the circulation of the Bank of England?—I hope that the Committee will clearly understand, that, in any remarks that I make, nothing can be

farther from my intention than to attribute any impropriety of conduct to country bankers, as individuals or as bankers. They are administering a system, and, I believe, administering it in the manner that most men would administer it; I have not the smallest doubt that I should act in the same way under the same circumstances. But the whole question at issue is this: I believe that a great deal of the severity of the commercial crises in this country, and of the evils that attend them, are attributable to the want of contraction of the paper circulation of the country in correspondence with the bullion; and I believe, firmly, that no parties would be more benefited by a contraction of the circulation in correspondence with the bullion than the bankers themselves. I believe that it would be eminently calculated to give steadiness, regularity, security, and a satisfactory character to their business; I say so from some considerable experience. It has been my fate to be connected with very extensive banking establishments, both in town and country, during the four crises which have taken place; I have been forced to watch the storm, whilst it has been raging around me, and afterwards to endeavour to understand the causes which have led to it, and the consequences which have ensued from them; and I am thoroughly convinced that my own interest, and, I believe, the interest of every brother banker in the country, would be promoted in an eminent degree by the regulation of the paper circulation for which I contend. The absence of it seems to me to be the great fomenter of our internal panics, and I am quite sure that country

bankers who can remember what they went through in 1825, will readily admit, that any plan by which the recurrence of any thing like those events could be prevented, would be the greatest advantage that could be conferred upon them in their business. I do not, in the slightest degree, mean to say that country bankers, individually or collectively, are blameable for not contracting their circulation in 1834, whether the Bank of England contracted or did not; all I say is, that I believe the community at large, and the country bankers themselves most essentially, suffer great evils in consequence of the laws of the country not being of such a nature as to secure to the community the benefits to be derived from a paper circulation, corresponding strictly with the variations of bullion.

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2732. *Chairman.*] Is there any common cause to which you attribute the mismanagement of the circulation by the different classes of issuers?—I apprehend, that the mismanagement of the circulation generally is very closely connected with the union which exists between the functions of banking and the functions of issue.

2733. Can you show that, from any examination of the returns furnished by the Bank of England?—It seems to me that that is evidenced in a great variety of ways. In the first place, the very rule of the Bank of England, which it laid down in 1832 for the guidance of its affairs, is an indication of it; it is a rule which blends the deposit business with the business of issue. In the second place,

it seems to me that the whole doctrine of the duty of the Bank of England to support public credit (a doctrine strongly enforced by public opinion, and, as I think, too readily acquiesced in by the Bank itself) emanates from the same source. In the third place, there is the notorious fact, that whenever the Bank attempts to contract its circulation by a sale of other securities, the intended contraction is generally nullified by an increase of its discounts. In the fourth place, there is the fact, which is shown by an examination of the accounts, that during a drain of bullion the Bank finds it impossible to contract its circulation, on account of the demand made on it through its banking business; and then, again, when that drain is turned, and the gold is flowing into the Bank, and their circulation ought to be expanded, the contraction still goes on, in consequence of the banking securities, taken during the preceding pressure, running off, and the Bank is then placed in a situation of great difficulty, to know how to keep up its securities. These seem to me to be all phenomena illustrative of the inconvenience and derangement which arise from the union of banking business with issue. Again, as respects the country bankers, the very principle upon which they manage their issues, and which they contend to be beneficial to the community, is, that of making their issues expand and contract with the rise and fall of prices, and with the increase or diminution of the demands or wants of the community around them. These are all illustrations of the confusion and derangement which arise from the union of issue and banking.

2734. What distinction are you prepared to draw between the management of ordinary banking and issue? —It seems to me that the distinction between banking and issue is as clear and as marked as any distinction is, or as any distinction can possibly be. Issue is the privilege of creating money, of creating that which is the common measure of value in the country; banking is the duty of using and distributing that money in the conduct of the business of the country. The distinction between issue, or the creation of money, and banking which is the use of money, is very similar to the distinction between the authority by which the standard yard or bushel is determined, and the use of those measures in the ordinary transactions of life.

2735. If the issues were properly managed, would they not operate as a check upon the management of banking?—Yes; banking in all its forms is dependent upon credit; and the due regulation of the money of the country is the proper means of placing credit, and all transactions that spring out of credit, under due control, and confining them within their legitimate limits.

2736. Then you are of opinion that the union of those two functions in the same body tends to produce confusion in the public mind as to what the proper duties are of a body, which, like the Bank of England, has to superintend issues?—Yes, certainly; I have already stated that I think that the duty of supporting public credit has been thrown upon the Bank to a much greater extent than it would have been thrown upon a manager of the circulation, if she had been understood to be

limited to that function ; and it seems to me that almost all the fallacies which are prevalent on the subject of the circulation or the currency, arise out of a confused view of those two different functions. The principles of currency are in themselves simple enough ; but by mingling the management of circulation with banking operations great confusion has arisen ; for instance, the charges against the conduct of the Bank in 1835, seem to me to be entirely founded upon the confusion between what was their duty in managing their circulation, and what was their duty in their banking capacity. Again, I have seen pamphlets, which say, sometimes directly, and almost always in an implied manner, that it is the duty of the Bank to regulate prices ; that it is the duty of the Bank of England to regulate the rate of interest ; that the country issues ought to be regulated by the supposed wants of their respective districts ; that a rise of prices requires and justifies an increase of issues, and a variety of other ideas of the same kind ; all of which seem to me to spring out of the want of a due separation, in the minds of those who write upon the subject, of the functions of issue and of banking.

2737. Is this confusion increased by the Bank of England issuing notes not previously issued upon mercantile securities?—Of course the issuing of paper upon mercantile securities is one very important form of the union of issue and banking.

2738. Is the difficulty of good management increased by the multiplicity of issuers?—Yes, I think it is very seriously increased by the multiplicity of issuers ; where

the paper money is issued by a multiplied number of persons, it is probably not the interest of each of those persons separately to conform to one common rule; and even if it was their interest, it may very fairly be contended that it is not practicable for them to do so. That very ground has been taken in an anonymous pamphlet published by a writer of very considerable eminence in his other works, who has undertaken the defence of country issuers. He has taken, as the ground of defence, that they do not conform to the fluctuations of bullion in the management of their issues, because it is not their interest to do so; and further, because, if it was their interest to do so, it would not be possible for them to do so. The passages are not very long, and I will take the liberty to read them; I refer to this pamphlet, because the writer of it, whose name is not given, is well known for the just merit of many of his other works*, and therefore it is a fair test to take; the first passage is at page 55 of his pamphlet;—"When we speak of the Bank of England, or any other bank, and insist that its circulation and its bullion shall vary by equal increments and decrements, we lay down a precise and unambiguous principle, the observance and neglect of which, whether it is in itself just or not, are easily perceived and exactly measurable; but when we insist that the country banks shall make their issues vary with the variations in the quantity of bullion held by a bank in London, we prescribe a rule to which no definite mean-

* Mr. Bailey, of Sheffield, the author of "*Essays on the Formation of Opinions*," &c.

ing can be affixed, and of which no ingenuity can prove that one interpretation ought to be followed rather than another."

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2741. *Chairman.*] What sort of control do you consider the country issuers have over their own issues? —The control over the country issues is, what I should call, an external and not an internal control; it is a control which comes through the state of prices, and the demand for banking accommodation in the neighbourhood of each party, rather than from a reference on their own part to the state of exchanges or the store of bullion.

2742. That you do not consider to be the sort of control that ought to be exercised over their issues?—No; I apprehend the control over all paper issues ought to be exercised with a direct reference to the state of bullion, and to nothing else.

2743. In making investigations on the subject of the currency, do you find that any of the mischiefs which arise in times of panic, are to be attributed to the state of the country issues?—I think, upon reference to the course of former periods of panic and pressure, it will be found, almost invariably, that a considerable portion of the evil is attributed to an unnatural state of the paper circulation of the country, and of course partly to the state of the country issues, as forming a portion of the paper circulation.

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2745. Has the non-conformity of the country circulation, either to the Bank circulation or to the state of

bullion in the Bank, been obviated by the joint stock bank system?—No, certainly not. The object and purpose of the joint stock bank system was to give greater strength and power and solidity to country banks; it was resorted to with a view of insuring the solvency of the banks, not at all with a view of insuring a greater conformity, on their part, either to the action of the Bank of England or to the exchanges. So far as the joint stock bank system has increased the strength of the country banks, it has, *pro tanto*, made them less immediately subservient to the action of the Bank of England.

2746. Do you consider that the convertibility of the notes payable on demand is secure under the present system?—No; I think that the convertibility of our paper issues is not sufficiently protected under the present system.

2747. Do you consider that it has been endangered?—Yes, I think that it must be clearly admitted to have been endangered to a high degree in 1825, and certainly exposed to serious danger in 1839. At the same time, I think this remark ought to be made: that almost in any extremity of the state of bullion, the Bank of England has means within its power of producing such an action upon the public as shall be sufficient to stop the foreign drain; but the difficulty is, that if it allows the bullion to get to a low point, the action to stop the foreign drain must then be very sudden and of a nature very severe and ruinous to the commercial community; also, there is great danger with such an action, of exciting an internal

demand, and when once the internal demand is raised, there is no principle upon which you can stop that.

2748. Are there any other evils besides the danger of non-convertibility, that arise out of the present system?—There can be no doubt about it—the state of the circulation has a very direct effect upon the state of credit, of confidence, of prices, and of banking; and if the state of the circulation be allowed to become an unnatural one, unnatural and pernicious effects will be produced upon all those. If your circulation is subject either to depreciation from the excess of its amount, or to violent fluctuations of amount, then, undoubtedly, that will be followed by corresponding effects upon confidence, upon credit, upon prices, upon banking, and so forth. Those things are also affected by other considerations. I do not see that it is possible to analyse the effects, and to attribute to each cause its respective share in producing those effects; all that can certainly be understood is, that if you regulate the paper circulation upon sound principles, you may be quite sure that you have then removed that portion of the evil effects which was attributable to the want of due regulation.

2749. How is convertibility to be most securely provided for?—I apprehend by taking care that the paper money of the country is always kept of the same value as the metallic money, by always keeping it at the same amount.

2750. Does this apply to all circumstances equally of an efflux and influx of bullion?—Yes, it applies equally to both cases.

2751. What are the circumstances which generally precede an efflux?—The causes producing an efflux of bullion may be divided into two classes; one would be the depreciation in value of the currency of this country, in consequence of the excess of its amount; the other would be a demand upon the gold of this country, arising from an unusual and extraordinary importation of some certain commodity, not accompanied by a corresponding increase in the exports of commodities, and which must, therefore, be paid for in gold.

2752. When the efflux proceeds from causes so different, is it right to pursue the same course by reducing the amount of the circulation in conformity with the efflux?—Yes, I apprehend that it is so, whatever the cause of the efflux of gold may be. It is quite clear, that if the circulation were a metallic circulation, it would be so diminished, and I apprehend it, therefore, to be a good rule that a similar variation take place in the paper circulation. In the second place, though the causes of a drain are distinctly separable in theory, they are not equally so in practice; in fact, the cause of a drain is generally of a mixed character, and if you make the slightest mistake in estimating the causes, and proceed to act upon the supposition that it is a drain proceeding exclusively from the excessive import of a particular commodity, when, in point of fact, some portion of the drain is attributable to a depreciation of the value of the currency, however slight, you will get into a very serious difficulty. In the third place, even if the cause is of the pure nature supposed, if a certain quantity of bullion in

store be drained out by it, that quantity is to be recovered, and it seems to me that you have no means, upon principle, of recovering it except by contraction.

2753. It has been stated by Mr. Rothschild in his examination before the Bank Committee of 1832, that in the regular state of the commercial relations of this country with other countries, there is a constant influx of gold into this country; do you agree with him in that opinion?—I presume all that can be meant by that statement is, that this country is a country annually producing more than she consumes; that she is, in fact, an accumulating country; that a portion of these accumulations are laid out in foreign investments, and that so long as the par value of our currency is preserved with reference to the other countries of the world, those foreign investments are paid for by the export of commodities. But it does not appear to me at all to follow, if you suffer that par value to be in any degree deranged, that then the investments in foreign securities will not be paid for in gold. This is the important point, to keep your currency at that par value which shall secure you against the gold being drained out of the country instead of your surplus commodities to pay for foreign investments.

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2755. A contraction in the currency operates by checking the export of bullion, and encouraging the export of goods?—Yes, certainly.

2756. Then that which precedes this state of things, is a reduction of prices?—That is true, certainly, upon principle; it is the necessary effect of the contraction of

circulation in ultimately reducing prices that constitutes the certainty with which we rely upon the principle; but at the same time, practically speaking, I think it is very possible that that effect may be anticipated by a speculative action upon the exchanges; and I think it not at all improbable that you might have an effect produced upon the exchanges without a preceding effect upon prices.

2757. Then if the drain arises from any special cause, such as an importation of foreign corn, do you think it would be reasonable under such circumstances in order to produce an effect on the exchanges to cause a pressure?—Yes.

2758. Would the postponement of the contraction, in your opinion, tend to increase or diminish the ultimate contraction required?—I think that it would tend to increase the ultimate contraction required, and for this reason: the contraction of circulation is the means by which the drain is to be checked; if you postpone the contraction, of course you allow the drain to continue longer; therefore the drain will go to a greater extent; consequently there will be a larger amount of bullion to be recovered. In addition to that, contraction of circulation is the means of checking those various phenomena, connected with the growth of credit, which arise in consequence of the circulation being in excess; and in proportion as you postpone that contraction, you allow an undue state of credit to expand itself, and to grow to a greater height; therefore, of course, the pressure that must ultimately ensue is considerably increased.

2759. Has the plan of maintaining issues undiminished

in the face of a drain of bullion practically succeeded?—No, that plan has been tried in the three cases we have alluded to of 1825, 1837, and 1839, the results of which we all know.

2760. Do you apprehend that a self-acting plan, for regulating the expansion and contraction of the issues, is necessary?—A rule for the regulation of the currency, that acts of its own accord, and without the intervention of any special agency in each case, would be desirable.

2761. Sir *Robert Peel*.] How could the currency be so regulated as to insure the operation of this self-acting principle?—The first case would be that of a currency exclusively metallic; there would be, of course, in that case, a self-regulating principle; the second would be that of a currency similar to that of the bank of Hamburgh, which is paper notes, represented by an equal amount of gold in deposit. We may suppose a third case, that of the Government of the country issuing a fixed amount of paper upon its own security and leaving all further fluctuations to arise from the issue of notes against the deposit of an equal amount of gold; that would be again a self-acting regulation.

2762. Would you, in the last case you have put, have the issues convertible into gold?—I am only throwing out the supposition, for the purpose of illustrating the nature of a self-acting principle.

2763. But in the possible scheme of a fixed amount of notes issued by the Government, you would still have them convertible into gold at the will of the holder?—I did not advert to that point one way or the other,

because it did not seem to me to be a point that was involved in making the supposition complete for the purpose for which I made use of it. I should think it desirable that they should be convertible into gold; if they were not, you would have to rely upon the fact of the amount of inconvertible notes issued being below that point to which the gold would ever be reduced.

2764. *Chairman.*] What are the inconveniences which belong to a currency regulated merely by the opinion which the issuing body may entertain of the expediency at the moment of expanding or contracting it?—The evil would be, that you would by that means surrender rule and principle, and take in exchange for it the discretion of whoever might happen to be the issuing body.

2765. How far is the maintenance of the principle of a self-acting rule compatible with the practice of the issuing body acting in support of public credit?—They are incompatible, if the supporting of public credit means an attempt to uphold public credit by an increase of issues for that purpose.

2766. What meaning do you attach to the expression, the supporting of public credit; is the support so given usually general or partial?—I am inclined to think that there is a good deal of fallacy prevalent in the public mind upon that subject. The true source from which public credit is to be upheld must necessarily be the capital of the country. Now, there is no alteration in the amount of the paper money of the country that can alter in any way the amount of capital; it is very true that it may have some effect in altering the particular

distribution of that capital; and it appears to me that the doctrine of supporting public credit has emanated from the doctrine of supporting a particular credit in any particular instance. The Bank of England, or any other body with sufficient resources, and capable of acting with promptitude and secrecy, may support the credit of any particular concern or institution. It does so by issuing to that concern its notes, through the means of which that concern is enabled to possess itself of a command of capital which it had not before, and which it must necessarily draw from some other person. But what is true of a particular and single concern does not hold true of the whole community; you cannot abstract capital generally and apply it generally; the support of public credit at large can only be obtained from the best distribution of the existing capital of the country, and that best distribution, I apprehend, will always be obtained, not by the particular interference of a particular body, but by leaving the capital of the country to distribute itself under the action of laws which are favourable to free agency.

2767. *Sir Robert Peel.*] In a former answer you have stated that it is difficult to guard against the consequences of a drain of the bullion of the Bank, arising from internal causes?—Yes.

2768. One of those internal causes might be alarm, and perhaps unfounded alarm, as to the solvency of a particular establishment; as, for instance, to the means of the Bank to pay its notes in gold; and that might be one of the causes of a drain of gold?—Certainly.

2769. Supposing there was some very eminent mer-

cantile house that foresaw the probability that it would be unable to fulfil its engagements on a certain day; might not the failure of that house contribute to increase that alarm?—Certainly, it might tend to spread that alarm.

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2772. Supposing the Bank prevented the original failure, by giving a timely supply of notes to that house; might not the Bank prevent, by that timely supply, and by supporting the credit of the individual house, the origin of this unfounded alarm?—Undoubtedly.

2773. Might not, in that case, the Bank contribute to support the public credit?—Undoubtedly, it might; but I have looked at the expression, “public credit,” rather in a different sense from that of merely stopping panic. There is no doubt that a judicious interference may, in one particular case, stop an event which, if suffered to occur, may spread alarm; that, theoretically speaking, is possible, and if that is the meaning of supporting public credit, it is true that you may support public credit by an action that has nothing to do with capital.

2774. But, in the popular sense in which it is said that the Bank have interfered to support public credit, is not that the meaning?—No, I think not; the usual meaning is, making liberal advances to assist persons generally who have heavy engagements coming round, and liberality in their discounts; that is the form in which the public look to the Bank to support public credit; that is a different thing from an intervention in a par-

ticular case to prevent the embarrassed position of a particular house becoming known to the public.

2775. *Chairman.*] Is this reliance of the mercantile body upon the supposed duty of the Bank of England to relieve them in times of pressure productive of any public disadvantages?—I think it certainly leads to demands upon the Bank which she cannot meet without violating her duty in managing the circulation.

2776. *Mr. Ellice.*] In point of fact, during your experience, has the Bank, except upon one occasion, when it interfered to uphold the credit of the American merchants, ever given such assistance to the public as was likely to interfere with the circulation of the Bank?—I am inclined to think that the action of the Bank with respect to its circulation has been frequently disturbed by its endeavour to satisfy the demands of the public for what may be called support or accommodation. I think, for instance, that whenever discounts are swallowing up her attempts to contract her circulation by other means, that is an indication of the very thing I am speaking of, namely, that her endeavour to supply the demands of the commercial world is interfering with that which she would otherwise effect.

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21st JULY, 1840.

2784. *Chairman.*] IN 1839 some American houses applied to the Bank for assistance, which the Bank offered to them to a limited but insufficient amount, and they

ultimately obtained the amount requisite from capitalists in the money market ; can you state what was the amount tendered by the Bank, and what was the amount which they ultimately obtained from the money market ?—The transaction to which you refer was an application by, what is called, the United States Bank for advance, in the year 1839 ; I am not sure that I can state the circumstances with great accuracy, but I can state them with sufficient general accuracy. The agent in this country of the United States Bank applied to the Bank of England for aid under circumstances of great emergency, as regarded that concern. The Bank of England offered to him a loan of 300,000*l.* in stock, not in money, to be advanced upon the personal securities of responsible parties in this country ; that offer was not deemed sufficient to accomplish the end in view, and therefore was not made use of ; subsequently to that a number of private individuals united for the purpose of accomplishing the object, and they advanced to the same party 800,000*l.* in money, for the period, I think, of a year and a half or two years, and upon the deposit of American securities only ; the loan tendered by the Bank was for one month only. Of course, in referring to this, I do not mean to throw the slightest blame upon the Bank of England for not having made a more liberal offer, as it would be called ; I believe the difficulty would rather be to justify the Bank in going so far under the circumstances, than to defend her against any charge of not having gone further. Having raised this question of support of public credit, perhaps the Committee will allow me to advert to a point

which occupied our attention near the close of my examination on the former day, namely, the question of the support of public credit and the distinction between that support to public credit which is given by aid rendered to particular establishments, with a view of preventing that spread of general alarm which might arise from the embarrassment of a particular concern, and that support to public credit which is afforded by the general expansion of the advances of the Bank of England upon discounts and upon every other species of mercantile security. With regard to the support of public credit of the first description, the utility of such measures may be subject to very serious question. If we look to the practical results in each case in which it has been resorted to, we should very probably be led to form a low estimate of the value of such measures; but at all events the banking resources of the Bank of England would be amply sufficient to meet every demand that could possibly arise for that purpose. With regard to the second form of supporting public credit, which is the meaning in which I have always been accustomed to use the phrase "support of public credit," and I believe that will be found to be the meaning in which it was used in the discussions in the Committee of 1832, and that that is the meaning ordinarily attached to it by the public; for the support of public credit of that nature, nothing can be sufficient but the general capital of the country, allowed to distribute itself freely, without any interruption by artificial laws. Any increase of issue by the Bank of England, or by any other establishment, cannot alter the

amount of the capital of the country ; it can only partially affect the distribution of it, placing the command of a larger portion in the hands of those persons to whom that increase of issue is made, and at the same time necessarily withdrawing the command of it from some other parties, who may very possibly be equally or more capable of using it advantageously. Upon this point I am glad to be able to confirm my own view, by quoting the very high authority of the late Mr. Ricardo, who thus expressed himself: "A great deal of stress has always been laid upon the benefits which commerce derives from the accommodation afforded to merchants by the Bank. I believe it to be quite insignificant, compared with that which is afforded by the private funds of individuals." There is also a passage in the evidence given by Mr. Tooke in the year 1832, which bears upon another part of the observations I have just made; the question and answer are these: "Supposing there should be a deficiency of capital for the purposes of agriculture, it is a circumstance that does not come within your knowledge?" The answer is, "More capital may be desirable, but I am not aware that any operation of banking would give the desired increase. I would say, once for all, that in my opinion no operations of banking add at any given moment to the previously existing capital; they only serve to distribute it in an advantageous manner." And in the following answer he adds, "I can only speak from my general opinion of the nature of capital, that the issue of paper money does not create capital. In the case of the banker issuing paper money he advances his credit, while

the capital he thus commands and transfers is that which already existed, and might have been equally applicable in the way of loan through some other channel."

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2792. Some authors have considered that there is more rapid addition to, and diminution of, the currency of the country, under a system like ours, of a paper circulation with a reserve of gold, than there would be if there were a purely metallic circulation; do you agree in that?—I do not see any grounds for that supposition; and it is difficult to comment upon it, unless one knows the reasons by which it is sustained. It appears to me that a well-regulated paper circulation will always fluctuate, precisely as the metallic circulation would have fluctuated; and if this be the case, it seems to be almost tautological to say that the effects of the two systems will be identical.

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2794. Upon what do you conceive the rate of interest to depend; does it depend upon the amount of circulation?—The rate of interest may be temporarily affected during an increase or a diminution in the amount of paper circulation. I apprehend that the general range of the rate of interest is liable to be affected in varying degrees by many considerations; but it is correct to say generally, that it depends upon the proportion between the quantity of capital in the country and the demand for the employment of it.

2795. Does the Bank of England regulate it?—No. It cannot be said, in the proper meaning of the words, that the Bank regulates the rate of interest in this

country, though she undoubtedly may exercise an influence over the temporary fluctuations in the rate of interest. During short periods, the Bank of England, being a very large and powerful body, with means and resources out of proportion to the mass of the community, may produce slight temporary oscillations in the rate of interest; but she cannot affect the general average altitude of the rate of interest.

2796. Do you apprehend that it is possible for a steady rate of interest to be preserved in this country?—No, I conceive it to be quite impossible; in a country like this, with a highly accumulated capital, with great enterprize, with a great spirit of speculation, with very extensive commercial relations with all parts of the world, and of a highly manufacturing character also, it appears to me impossible to avoid considerable oscillations in the rate of interest.

2797. The Bank of England, therefore, in your opinion, has no power to keep the rate of interest steady?—No; I think the doctrine of calling upon the Bank of England to keep the rate of interest steady is quite absurd.

2798. Has the Bank of France had it in its power to keep the rate of interest steady in that country?—The rate of interest in France is a great deal more steady than it is in England. I apprehend that arises from two circumstances; first, that the currency of France may be considered as virtually a metallic currency; that consequently all oscillations in the rate of interest which arise from an unnatural state of the currency in any other

country are avoided in France, and whatever steadiness in the rate of interest is found to prevail in France beyond that, must be attributed to the difference between the monetary and commercial condition of France and other countries; her condition is in many respects the opposite of that state in which I have in the last answer described England to be placed.

2799. You stated in your evidence on the former day, that the country issuers regulate their issues by the rise and fall in prices, and by the increase and decrease in the demand for banking accommodation; by the supposed wants of the public, in fact, and not by a reference to the efflux or influx of gold, or the state of the exchanges; upon what ground is it that you made that statement?—I made that statement, first, upon the ground of the general notoriety of the fact, which I believe is not denied by anybody; and, secondly, upon the faith of various statements to that effect made by the country issuers themselves. [*Here Mr. Loyd laid before the Committee various extracts from the latter.*]

2800. Do you conceive that those are the correct principles, upon which the issues of paper-money ought to be regulated?—No, I do not conceive them to be the correct principles, but to be directly in opposition to correct principles; I conceive that the principle of managing a paper circulation, which is stated in these passages, is in itself unsound, and that it must be productive of mischievous consequences; I conceive that it is unsound, for this reason, that when prices rise in any country, of course that very fact creates an additional inducement to foreign

countries to send their commodities here, and a diminished inducement to take our commodities from us; consequently, that must have a strong tendency to produce an export of gold, and ought to lead to a contraction of the circulation. Now, the principle here laid down is to meet that state of things by an opposite course, namely, by an expansion of the circulation.

2801. What are the consequences which you think would result from acting on this principle?—The rise of prices will receive a further and artificial stimulus; the speculative action which always attends that rise of prices will be fomented, and will proceed to a much greater height than it would otherwise have reached, and consequently the convulsion which must afterwards ensue will be proportionately severe.

2802. Upon whom will those consequences principally fall?—Those consequences will fall, in the first place, and principally, no doubt, upon the commercial world, and, in fact, upon all parties who are liable to be affected by the severe crises which we occasionally experience in this country; that is, upon the whole community at large. But I think it is a subject very fit for serious consideration, whether the country bankers themselves are not a class liable to be very seriously injured by such convulsions. I apprehend, that they themselves frequently suffer very seriously in their own interests from the previous want of due regulation in the management of the aggregate paper circulation of the country.

2803. Can you give any practical illustrations of those views?—I think that the two points to which we referred

on a former occasion, afford the strongest possible practical illustration of the consequences of which I am now speaking; I mean the periods of 1825 and of 1832. I think it is a matter amounting almost to demonstration, that the convulsion of 1825 is traceable to the absence of the application of the principle of contracting paper issues at the commencement of a drain of bullion; and that, consequently, all the terror and ruin that fell upon the country banking system at that time are justly and fairly attributable to the non-application of that principle to the management of the paper issues, and the adoption, in lieu of it, of the principle of allowing them to expand with increasing speculation and with growing prices; I think that the ease and tranquillity with which we passed through some considerable trial in 1832, is attributable to precisely the opposite course; namely, to the application by the Bank of England of the principle of contracting the issues the moment the drain of bullion began, and to the contraction of the country issues, necessitated by the then peculiar state of the law for suppressing the one and two pound notes; so that I look upon the crisis of 1825 as the practical illustration of the consequences of acting upon the principle laid down in the extracts which I have just read; and I look upon 1832 as the practical illustration of the consequences I anticipate from what I apprehend to be a sound management of the paper circulation.

2804. You have explained what you consider the proper principle of managing the securities of a bank of issue; will you explain what you consider to be the

correct principle, in respect of securities, for managing a bank of deposit?—I apprehend the principle for the management of a bank of deposit, is to invest in productive securities that amount of your deposits which, looking at their nature and character, you think you can venture to invest, without being called upon to realize too expeditiously again.

2805. How far did the rule, which the Bank laid down for its conduct in 1832, approach to sound principle?—The advantages attending the rule of 1832 I conceive to have been these: that, in the first place, it substituted a fixed and definite rule, instead of the arbitrary discretion under which the affairs of the Bank had been previously managed; secondly, that it excluded external action upon the Bank; that is, that it left the Bank subjected only to the demands of its own depositors, and those of the holders of its notes, but not subjected to the demands of the commercial world at large; and thirdly, and perhaps principally, that it recognized and gave sanction to the doctrine of the essential importance of a fixed relation being preserved between the fluctuations in the bullion and the fluctuations in the liabilities of the Bank.

2806. How far have the Bank adhered to that rule?—I have always considered that they have altogether failed to adhere to it.

2807. If they had adhered to it, would things have been better than they have been?—I have no doubt, that in some cases an adherence to the rule would have been more beneficial than the course that was pursued; but there are many cases in which an adherence to the rule

would have been absolutely impracticable. I always interpret the rule with reference to all the deposits; I am incapable of entering into the distinctions which have been set up between different classes of deposits.

2808. What great deviations from the rule can you point out as having taken place since 1832?—I must confess, that never having myself considered the rule of keeping the amount of securities equal, as being an important rule for the government of the Bank, or as affording the best indications of its management, I have never examined the affairs of the Bank carefully by the test of that rule, and therefore I am not very much prepared to answer that question. I can only answer it by the paper which has now been put into my hands; I observe a great fluctuation in the amount of securities throughout the year 1834, and also a very marked increase in the amount of securities throughout the year 1835; they reached the maximum sum of 31 millions in December, 1835.

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2815. Do you apprehend that the circumstance of there being a loan* in the course of payment offers any peculiar facility to speculation?—There can be no doubt that the contracting of a large loan upon the part of the Government, and contracting it in that form which leads to the rapid paying up of the whole amount of the loan, must disturb the tranquillity of the circulation; and, under such circumstances, the first duty incumbent upon

* This refers to the West India loan of £15,000,000 in 1835.

the managers of the circulation is, by all legitimate means within their power, to neutralize that effect. It seems to me that the Bank of England in that respect acted very judiciously, and in a manner very beneficial to the public interests. We have generally understood that a very large amount, I do not know whether it did not amount to 10 or 12 millions, was paid up almost at the same moment, and yet, when we look at the state of the accounts, we do not find a disturbance in the circulation at all corresponding with so violent an action; that of course must have been the consequence of judicious and correct measures on the part of the Bank; and I think that their conduct in that respect deserves approbation and gratitude on the part of the public, and not censure.

2816. Then whatever facilities for speculation were afforded by the loan at that time, arose from the circumstance of their being a loan, and not from the conduct of the Bank? — Whatever disturbance to the otherwise natural state of things arose at that time, must have arisen from the contracting of the loan, and whatever effects proceeded from that, the Bank of England is in no respect whatever responsible for them. Her duty was to keep the circulation in as equable a state as the circumstances of the case admitted, and I think she did that efficiently.

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2819. If a deposit account be transferred from one London banker to another London banker, and both bankers invest the same proportion of their deposits in securities, and keep the same proportion as a reserve, will the transfer of the deposits from one banker to another

banker occasion any difference in prices or in the exchanges?—I apprehend that upon the supposition of all the proportions being preserved unchanged, the transfer of the fund from one hand to the other will only alter the condition of the two houses from and to which the transfer is made, and the general condition will be preserved the same.

2820. If such a transfer of a deposit be made from a London banker to the Bank of England, and the Bank of England invests the same proportion of its deposits in securities, and maintains the same proportion as a reserve, as the London banker does, will prices or the exchanges be affected by such a transfer?—It is quite clear that it would be absurd to suppose that they could be; if the amount of money invested and of money reserved be kept in the same proportion, it cannot produce any sort of effect, except upon the parties immediately affected, whether that be done through the medium of A., B. or C.

2821. Then the aggregate amount of deposits, of circulation, of securities and of reserves would remain precisely the same, after the transfer took place from one banker to another, as before?—That I apprehend to be the statement in the question.

2822. You apply this equally, under the supposition contained in the former questions, as well to the Bank of England as to the private banker?—Certainly; I conceive that if, of a given sum a certain portion is to be supposed to be held in a till, and another portion is supposed to be held in investment, that it does not make

any difference whether those appropriations be effected through the operations of bank A., bank B., or bank C., considering the Bank of England as A., and the private bankers as B. and C.

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2825. *Chairman.*] Was the conduct of the Bank generally correct during the autumn of 1835, and up to April, 1836?—I believe the fact, during the period alluded to, was, that during the influx of bullion, there was rather a decrease than an increase of circulation.

2826. From April, 1836, till the winter of 1837, what was the case?—During that period the bullion underwent a heavy diminution, without any corresponding diminution in the bank issues.

2827. Then, in the winter of 1836-7, and in the spring of 1837, there was great commercial distress?—There was.

2828. How far was this distress attributable to any undue contraction in the Bank circulation?—It cannot be attributed to contraction in the Bank circulation, because no such contraction took place.

2829. Nor to any contraction in the circulation of the country issuers?—The country issues underwent a considerable contraction in the early part of the year 1837, but I am not disposed to attribute the distress to that circumstance. I am rather inclined to think that the circulation of the country issuers was contracted in consequence of the fall of prices, yet I presume it to be probable that the contraction may have carried the fall farther than it would otherwise have gone.

2830. In 1838 the export by the Bank of gold to America took place, did it not?—Yes.

2831. Was the Bank in a sound state in the December of 1838?—I presume we may consider the Bank to have been in a sound state at that period, or very nearly approaching to it; but I should not go so far as to say that the aggregate paper circulation of the country was in a sound state. In the tables which I have before me, it appears that the bullion, during the year 1838, had undergone a reduction of some amount, though not a serious one; whilst the aggregate paper circulation had increased; and I think that a good deal of the difficulty in 1839 might have been mitigated, if, instead of that increase in the aggregate paper circulation of the country during 1838, there had been a decrease in correspondence with the gold.

2832. If the increased amount of issues and securities of the Bank of England, which is observable in 1839, be owing to deficiency bills, do you consider that circumstance as a justification for such an increase?—No; I should say, upon principle, that if the Bank undertake to make advances upon one form of securities, that necessarily involves the corresponding duty of reducing their advances upon some other form of securities.

2833. You apprehend that such advances ought to be provided for by the Bank, out of their ordinary banking resources?—Certainly.

2834. How far is the circulation generally affected by payment on deficiency bills?—The payment of the dividends at the four quarters of the year has necessarily

a tendency to throw out a large amount of issues from the coffers of the Bank at the period of the dividends, and to produce consequently rather a violent contrast between the amount of circulation immediately preceding the dividends and the amount of circulation immediately subsequent to the dividends. The Bank has, within the last few years, resorted to a measure that has worked extremely well for the purpose of mitigating that difficulty, namely, that of making temporary advances during the month preceding the payment of the dividends, to be discharged during the month in which the dividends are coming due; and by that means an approach is made to an equalized state of the circulation.

2835. Is it material on what securities those advances are made?—No, I do not apprehend that it is a matter of much consequence on what securities they are made. Generally speaking, I should say that the advances of the paper issues of the country should be made upon Government securities; but this is an advance of a temporary nature, and to meet a peculiar and transitory difficulty, and probably advances upon mercantile securities would be found more efficient for the purpose.

2836. Those quarterly advances are usually made, are they not, at the market rate of interest at the time?—Yes; I should apprehend rather under than above the market rate of interest.

2837. The Bank rate of discount is generally considerably above the market rate, is it not?—During periods of tranquillity in money matters, the Bank rate of discount is generally above the market rate, but during

periods of heavy pressure, I should be inclined to say that the market rate was above the Bank rate.

2838. If the quarterly advances were made at the usual rate of discount on mercantile bills, would it not have the effect of preventing those advances from being made at all, under ordinary circumstances?—I think it is very possible that it would prevent their being made to the extent to which it is desirable that they should be made.

2839. What was the effect of the Bank raising the rate of interest in 1839?—I apprehend that the effect was extremely valuable; it was the one measure by which the Bank did any thing to meet the drain under which we were suffering. I think it is important to observe, that raising the rate of interest during an efflux of bullion is a measure strictly in conformity to what would be the course of things with a metallic circulation. If with a metallic circulation a drain took place, the circulation would, of course, be undergoing a contraction; which contraction would necessarily produce a continuous tendency to a rise in the rate of interest; and the Bank administering the paper circulation is strictly conforming to the action of a metallic currency, when she raises the rate of interest during the export of bullion.

2840. You conceive, then, as regards the management of the issues by the Bank, it was a wise measure to raise the rate of interest, since it afforded an additional security for preserving convertibility?—I conceive that raising the rate of interest in 1839 was essential.

2841. What do you think was the effect of the partial

repeal of the usury laws during the pressure upon the money market in 1839, as regarded men engaged in trade, commerce, and manufactures? — I apprehend that every approach towards a repeal of the usury laws is a benefit to the community, in every respect; I think that it worked extremely well in the year 1839; that without it, the Bank of England would have been exceedingly embarrassed; that she would have been precluded from the one measure, by which an effort was made on her part to rectify an unnatural and alarming state of things. And also I conceive that a great deal of the comparative firmness with which the trading world sustained the pressure of the year 1839, is fairly attributable to the unrestrained freedom with which capital was allowed to seek its most beneficial employment, and to direct itself to the quarters where it was most wanted.

2842. Independently of the operation of that partial suspension of the usury laws upon the Bank, and looking to its effect upon commercial men, do you think that its operation was decidedly beneficial?—I have no doubt of it, whatever.

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2847. How far do you think that it would be a wise course for the Bank to pursue, that with a view to its stopping a drain of gold, whenever a drain shall arise, it should depend on foreign securities, which it might buy when exchanges were favourable, and sell when they were adverse?—I do not know that I am a very competent judge upon that point, but I confess the leaning of my mind is rather adverse to that plan.

2848. Will you state why?—The plan is certainly unobjectionable upon principle. It would be a measure tantamount to holding the same quantity of gold, paying interest; it would be a commodity which the Bank of England would have the means of exporting for sale, and against the proceeds of which it might draw, whenever the state of the trade of the country led to an excess of imports, and a deficiency of exports; but on the other hand, if the Bank adopts that plan, she will necessarily become a very powerful actor, at her own discretion, upon the exchanges; and the knowledge that so powerful an actor is hanging over the exchanges, I think may be calculated to disturb the ordinary action of the exchange dealers, and to prevent their taking that course which, under ordinary circumstances, they would take; and I think it a matter worthy at least of serious consideration, whether greater evil might not arise in that way than the good which would be obtained by the holding of securities on the part of the Bank. In addition to that, it seems to me to be in violation of the great principle of the rule of 1832, which was that of leaving the Bank to be acted upon, and not acting itself; I think that, as far as it can be carried out, a very useful principle, with reference to the Bank, and this plan of holding foreign securities seems to me to be of directly an opposite character.

2849. In an extreme case, such as took place in 1839, do you think that the Bank was justified in the course they adopted, of obtaining credit upon houses at Paris and Hamburgh upon which they drew bills, selling those bills upon the English Exchange?—I think, under the

circumstances of the year 1839, the Bank was fully warranted in that course, and that it was a very beneficial one; but at the same time I should be very sorry to see the managers of the paper circulation of the country encouraged to look to that as a constant practice; I had much rather that the safety of our paper circulation was sought from its legitimate source, proper contraction, at the proper time, and to the proper extent, than that we should rely upon an expedient of this nature, which is only a last resource in extreme difficulty.

2850. Are you aware whether the negotiating of these foreign credits occasioned discredit of the Bank of England upon foreign exchanges?—I have no direct knowledge of my own upon the subject, but I have been given to understand, by those who ought to know very well, that such was the case.

2851. Did the discredit into which the Bank of England fell from that cause, produce any additional demand for gold?—I have always heard those persons whose business it is to deal in exchange transactions, and to watch the condition of the foreign exchanges, say, that the state in which the Bank was in 1839, led to the realization on the Continent of Bills upon England which are usually held by foreign capitalists there. How far that arose from the particular circumstances of the Bank obtaining foreign credits, or how far it arose from the general feeling of alarm respecting our monetary system, which had then sprung up, I cannot say.

2852. Does the present plan on which the country issuers manage their circulation, by holding negotiable

securities in London, and realizing them in case of any run upon their own banks, occasionally produce a material effect upon the money market in London, and interfere with the ordinary course of management of its circulation by the Bank of England?—There is no doubt that the wants of the country bankers are usually supplied by their realizing securities in London, and carrying away from the London market the bank notes and cash obtained by that process; that drain upon the London market may arise for the purpose of supplying the demands arising out of the notes of country bankers, or it may arise out of demands from their regular banking business; it is not peculiar to their notes, it is common to all their wants.

2853. Under a system of metallic circulation, and if the banks were only banks of deposit, this realizing of securities to meet any discredit into which those banks might fall, would occasion similar disturbances in the state of the currency in London?—No doubt they would; their notes are only one additional obligation which they are under, and which may create an additional demand of the same kind.

2854. Is this the rule as well of strong as of weak banks, to hold securities to meet any emergency?—No doubt, rather more in proportion to the strength of the banks than to their weakness.

2855. Is the Bank of England under the necessity of holding a larger reserve than it otherwise would hold, from its obligation to meet the demands of all the issuing bodies?—Undoubtedly the duty of holding all the bullion requisite to sustain the whole paper currency of the

country devolves, according to the present system, exclusively upon the Bank of England.

2856. Since, in case of a run upon a country bank, the holders of the notes and the depositors of that bank may not be satisfied with payment in Bank of England notes, but may request to have gold, is it not necessary for the Bank of England to be provided with a large reserve of gold to meet such emergencies?—Certainly.

2857. Are you aware of the power given by Act of Parliament to country issuers to meet the demand upon their banks by Bank of England notes instead of gold?—I am.

2858. If the country issuers were to draw, not gold from the Bank, but Bank of England notes from the London money-market, and if the London circulation were by this operation contracted, would not the momentary tendency of this be rather to improve the exchanges between London and the Continent, and thus to prevent the efflux of bullion from this country;—I apprehend that upon principle that is correct; you suppose an abstraction from the London market of a certain amount of its circulating medium, and all the legitimate consequences of the contraction of the circulating medium in that district must be assumed as following.

2859. If the Bank of England, in order to meet the occasional demands of the country issuers for gold, is obliged to keep a larger reserve of gold, does not this diminish the profits of the Bank of England?—Undoubtedly.

2860. Do you think the profits of the Bank of

England, considering the amount of its capital, are unreasonably large?—No, I think rather unreasonably low.

2861. If the Bank of England suffers a diminution of its profits, in order to maintain a reserve to meet the occasional demands of the issuing bodies in the country, do not you think that the issuing bodies ought to bear a proportion of the charge which is thus incurred for the purpose of insuring convertibility?—I apprehend, certainly, that the charge of maintaining the necessary amount of bullion to sustain the paper circulation of the country ought to be borne in a fair proportion by all parties issuing that circulation.

2862. Do you think at present the country issuers bear a fair proportion of that charge?—No, they bear no proportion at all.

2863. Sir *Robert Peel*.] What in your opinion has been the effect of the measure of 1833, which permits the country banker to discharge his obligations in Bank of England paper instead of gold?—I cannot say that I have given very particular attention to that question, but my impression would be that there have been no material results issuing from that measure one way or the other.

2864. Has it not diminished the inducement of the country banks to keep a reserve in gold?—I have no means of speaking upon that point with accuracy. I apprehend the country issuers do not keep a large amount of gold beyond that which is wanted for the daily purposes of business; but I am speaking out of my own knowledge and experience.

2865. Supposing the country banker were under the obligation now, which he was under five or six years since, of discharging any note presented to him in gold, would not every country banker feel it to be absolutely necessary for the purpose of maintaining his credit, to keep such a supply of gold as should enable him to discharge any notes that were presented?—I have no doubt that that would exist to some extent; if the question is, to what extent, I am not able to give an opinion that is worth attending to; but I apprehend there can be no doubt that the principle of the legal tender clause was, to enable country bankers to pay their notes in the paper of the Bank of England, instead of in gold, with a view of enabling the whole paper system of the country to be worked with a smaller amount of gold than it otherwise would be worked with.

2866. *Chairman.*] Could the end of banks of issue be attained without danger to convertibility, by a free competition among the issuing banks, accompanied with any of those checks against over-issue which you have recommended?—That raises of course the whole question of competition of issues; my own view of the matter is, that competition is a principle most properly applicable to banking business, as to most other businesses; but that it is not a principle applicable to what I should rather call the privilege than the business of issue. Issuing paper I always consider as the creation of money, and that is a duty or privilege which I think can be better exercised for the benefit of the community by one body, acting under the control of the Legislature or Govern-

ment, than by trusting it to the principle of competition. The principle upon which the advantage of competition depends, appears to me to be this; that its tendency, in all ordinary cases, is to secure to the public the advantage of the greatest quantity of the article, and of the best quality, at the cheapest price, and that all miscalculations with respect to supply that are made by producers, fall in their inconvenient consequences upon the producers, and not upon the public. Now, with regard to paper money, the object that competition secures is not that in securing which the public interest is most concerned; it is not the greatest quantity at the cheapest price which we require, but it is a strict regulation of the quantity by reference to a certain standard; and again, any miscalculations in the proportion of the actual supply, to that which ought to be supplied, fall principally and most extensively on the community at large, (in some degree, undoubtedly, upon the over-issuers,) but the community at large are in that case the greatest sufferers by the miscalculations of the over-issuers. Again, this question of competition at once lets in the consideration which I adverted to in my examination on a former day, as being laid down in the pamphlet in defence of joint stock banks and country issues, where it is distinctly stated, that it is not the interest of each separate issuer to conform to that rule which the interest of the community at large requires; that it is, in fact, his interest to violate it. Well, then, look what competition is in this case; competition is to place a great public trust, for such the issue of paper money really is, in the hands

of a body, when, by its own statement, it appears that it is the interest of each separate individual of that body to violate the rule upon which the public interest requires they should act, and even if interest does not lead them to violate it, they state that it is impossible for them to attend to that rule. I believe those to be perfectly correct statements; and they appear to me at once to prove that to intrust the issuing of the paper money of the country to the principle of competition, is to intrust it to that which must mismanage the paper money, and must inflict very serious consequences upon the public interest. [*Mr. Loyd then went on to read some statements illustrative of his view of the question from a Report of the French Chamber of Deputies, and from some American pamphlets and letters.*]

2867. Would a frequent exchange of notes between issuing banks insure their preservation on a par with specie?—I do not see by what process the exchange of notes between banks is to accomplish that result; the utmost that can be attributed to exchange of notes between banks is, that it shall preserve the same proportion between the issues of the banks which exists between the business of the banks; but the banks may all simultaneously, or any one bank may extend its business, and therefore circulation, improperly, and I do not see that an exchange of notes will afford any security against this result.

2868. Will a large paid-up capital ensure convertibility?—No, I do not see that a paid-up capital has any reference to that.

2869. Will a publicity of accounts ensure convertibility?—No, I think that will be ineffectual for the purpose.

2870. Will the giving security for a certain proportion of the notes issued secure convertibility?—I think all these questions are best answered by once more reverting to the great principle, that nothing will secure the permanent convertibility of the paper currency but a constant regulation of the amount of that paper currency by the variations of the bullion; because, without that, the paper currency, whatever other measures you may resort to, may be liable to permanent depreciation.

2871. You have already stated that a large reserve would not secure convertibility; would the unlimited responsibility of the partners insure convertibility?—I think I had better answer all such questions generally, by saying, that, in my judgment, nothing can be relied upon for the preservation of convertibility which does not involve security for the amount of paper being kept in constant conformity with the fluctuations of the bullion.

2872. Do you concur in opinion with the authors from whose works you have read, in those passages which state that the predominant power of some central issuer, charged with the responsibility of maintaining the convertibility of its notes, is essential to the security and permanent convertibility of the paper currency?—One controlling power, constantly acting upon the paper issues of the country, seems to me to be quite essential; but I do not know that it is absolutely necessary that that con-

trolling power should be vested in one of the issuers. In explanation of that answer, I had better state at once, that it seems to me, that, for the due regulation of the paper issues of the country, it is absolutely necessary that the Legislature or the Government should take some efficient measure for securing to the public an equal degree of security as regards each of those paper issues : and, secondly, a regulation of the aggregate amount of those paper issues, in accordance with the fluctuations of the bullion : those points seem to me essential for the good management of the paper circulation. Whether those two points can be secured, consistently with a perfectly free action in all other respects between the various issuers in the country, giving no preference to one over the other, but leaving all to act with perfect freedom of competition, subject only to the general restraint requisite for the protection of public interests, is a question of great importance. I am not myself prepared with any plan which shall accomplish those requisites, but certainly I have never seen any reason for thinking that that was impracticable. My own impression is, that if these objects were once recognized as objects which the public interests require, a plan to accomplish them probably may be devised.

2873. If a single issuing body were adopted, how do you think that body ought to be constituted ?—I am not prepared to state plans in detail ; I have stated generally the objects which are essential in the management of a paper circulation, and I am not prepared to go into details as to plans.

2874. If there were a single issuing body constituted, do you see any objection to the Bank of England becoming a bank of deposit only, and being the Government banker?—No, I see no serious objection to that.

2875. In like manner, if there were a single issuing body constituted, the country issuers would become merely banks of deposits, would they not?—They would become ordinary bankers.

2876. Would this occasion a fresh distribution of loanable capital, and be calculated to deprive certain districts of local accommodation, which the present system now gives them?—I do not apprehend that it would make any change in those respects, which, looking to permanent results, would be of any consequence whatever. I think the following considerations are rather important, as bearing upon that question; supposing the whole country circulation was annihilated, the proportion which that bears to the whole capital of the country is the proportion of a drop in the ocean, or the proportion which that bears to the aggregate amount of the banking transactions of a year, is something of the same kind; but we must also remember, that it is not a question of the annihilation of the country circulation. What changes may take place in the substitution of one currency in place of another is a different question; but there is no doubt that whatever alteration you make, there would be a paper currency to a large amount. The whole question at issue is merely the regulation of the fluctuation of the amount of country issues, in conformity with the bullion, or not in conformity with the bullion. Those fluctuations, according

to the returns, appear to vary perhaps to the extent of two millions and a half, the aggregate country circulation of England varying from something under 10 millions to something over 12 millions. Now, the only difference it could make to the community at large, is making the oscillations of the paper currency of the country within those limits correspond in point of time to the oscillations of the bullion, instead of, as they now do, occurring at periods not corresponding with the oscillations of the bullion. I confess, that I cannot imagine that the effecting of that object, by judicious means, could affect any district, with regard to the application of the capital of the country, to a degree which could involve any serious consequences.

2877. Assuming that there were to be but one issuing body, should you think it most expedient that that body should be a body distinct from the Bank of England, or a particular department of the Bank of England set apart for that purpose, the other department being confined to the management of the Bank as a bank of deposit?—I should myself entertain no objection whatever to seeing the whole paper issue of the country intrusted to the Bank of England, under a separation of departments, but if such a feeling were entertained by any important portion of the community, I do not see any objection, on the other hand, to vesting the management of paper issues in a commission appointed for that purpose.

2878. But the great and leading objects that you contemplate could be obtained by separating the Bank into two departments, one of which would be a bank of issue?

—A separation of the departments of the Bank I consider to be in fact a separation of the two businesses; they may be conducted by the same parties, but yet, the accounts being perfectly distinct, it is in effect a complete separation of the two.

2879. Could the department of issue be conducted, in your opinion, successfully, if the country issuers were left upon the present footing?—It would be quite impossible to impose upon the currency department of the Bank of England a strict adherence to the principle, whilst the country issuers were left as they now are. In the first place, the principle requires that the aggregate paper circulation shall vary as the bullion; if the Bank is not intrusted with a controlling power over the whole paper circulation of the country, of course the principle cannot be strictly applied to her. In the second place, to control the country issuers would require a special action for that purpose on the part of the Bank, an action not provided for by the principle. In the third place, whilst you are exposed to the possibility of discredit of country issues, whose place must be supplied by an augmentation of the issues of the Bank, that again cannot be made to range in accordance with the principle. Therefore, if a separation in the departments of the Bank of England took place, without any direct control being established over the country issues, of course you must give to the Bank of England, in her currency department, a discretionary power of suspending her obedience to principle, when the state of the country circulation required special interposition.

2880. If any such extensive change as limiting the issues to one body only were not carried into effect, what immediate modifications of the present system suggest themselves to you which would materially improve the present system of issues?—One may suggest an endless variety of measures, approaching more or less towards the application of a sound principle; the simplest and easiest step that you could take would be to require a monthly publication of the actual amount of their issues, both from the Bank of England and from other issuers, and at the same time to require what I think would be very useful, an annual or half-yearly report from the Bank of England, to be laid before the Chancellor of the Exchequer, for the purpose of being submitted to Parliament, of the state in which the Bank then stands with regard to the circulation, and the nature of the measures which it has pursued since the preceding report.

2881. If the country banks were left still banks of issue, do you think that it would be desirable that they should render public, not only the amount of their notes in circulation, but make the same returns as the Bank of England is required to make, namely, of the notes in circulation, deposits, securities, and bullion?—I am always disposed to look at the circulation as quite separate and distinct from banking business; and I should therefore, I think, be inclined to require only a statement of the amount of issues; and if I thought that bullion or coin were held by the country issuers to any extent, for the purpose of influencing the circulation, I should be inclined to require that; but I think that would be a nominal

more than a positive return; I do not see the necessity of requiring the amount of deposits or other heads which belong to banking business.

2882. Do you think that they should be required to publish a separate account of their issues, and of their bullion held against it?—I think the country is entitled to require from them, and ought to require from them, an account of every thing that relates to the paper issues.

2883. Do you believe that intelligent merchants and bankers have regard to the exchanges for the regulation of their own mercantile or other operations?—I think that they have; perhaps, not to the full extent to which it would be desirable, but to a much greater extent than they used to have regard to that consideration; I think that change has sprung up in a very marked manner since the publication of the accounts of the Bank of England in the year 1832. Whenever the state of the exchanges is precarious, the operations on them on the exchange days become a matter of constant conversation among the more intelligent classes of the mercantile and trading community, very much like conversations on the change of the weather in ordinary society. At the present moment the incomplete state of the bullion in the Bank, and the uncertainty of the coming harvest, give rise to a good deal of attention to the subject of exchanges; scarcely a day passes that I do not hear many persons conversing on that topic.

2884. Would they, in your opinion, do so to a much greater extent, if the actual accounts were published at short intervals, instead of average accounts?—I have

already stated that I think the actual accounts would be more desirable. I do not know that it would make any great difference in that respect.

2885. If it showed the actual state of the Bank, would not greater attention be paid to it?—The more accurate the account, and the more it gives you a knowledge of the state of things at the very moment, the more it excites your interest and attention to it, undoubtedly.

2886. Are there any observations, not elicited by the previous examination, that you would wish to offer to the Committee?—No; all my views upon the subject have been completely explained to the Committee.

22nd JULY, 1840.

2887. Mr. *Hector*.] Your opinions are opposed to the present free system of issuing cash notes, and you have quoted Lord Liverpool, as if supporting your opinion; are you not aware that this free system was advocated by Lord Liverpool because it was preferable to one issuing body, and was actually established by his Government in 1826, with the concurrence of the Bank of England?—I quoted the opinion of Lord Liverpool, as proving his judgment that mismanagement by the country issuers of their issues had been a material cause in producing the derangement of the year 1825. If that opinion on the part of Lord Liverpool is inconsistent with any other opinion or any other measure which may have emanated from his Lordship, it is not my duty to reconcile them; neither does it devolve upon me to ascertain or to admit

whether there be any such inconsistencies in the opinions and measures of his Lordship. I believe the opinion of Lord Liverpool, which I have quoted, to be a correct opinion, and to be founded upon a just view of the causes which produced the crisis of 1825. I am not informed in detail what were the opinions or acts of his Lordship upon the particular point stated in the latter part of the question.

2888. Are you aware that the joint stock banks were established by the Government in 1826, with the concurrence of the Bank of England?—I am aware that the joint stock banks were established in 1826, by the Government of that day, and I believe with a concurrence, though perhaps a reluctant concurrence, on the part of the Bank of England. The object of that measure I always understood to be, to increase the solidity of the country banking system, with a view of preventing that injury to the public interests which had occurred from the very extensive insolvency of the country bankers in the preceding year; but I never understood, nor do I conceive, that that measure was directed to the object of improving the system by which the amount, not the solvency, of the paper issues of the country was to be regulated.

2889. Mr. *Attwood*.] Do you consider the plan of establishing joint stock banks, which originated at that time, had for its object to correct the very evils described by Lord Liverpool in that speech of his which you have quoted?—I believe that the joint stock bank system was established for the purpose, as I have already stated,

of protecting the country from the evils of insolvency on the part of the issuers of paper money ; and I believe that it was not directed to any further purpose. I can only add that, if it was directed to the further purpose of regulating and controlling the amount of the paper issues, it was a measure ill calculated to produce that result, and has totally failed in accomplishing that object.

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2904. In a pamphlet of yours, dated in March last, being the second letter to J. B. Smith, Esq., in page 15, there are these expressions : “ The rule of keeping a fixed amount of securities, it is true, has been suggested by the Bank herself for her guidance ; but the folly has consisted entirely in the suggestion of such a rule and not in the departure from it.” Do you still retain that opinion ? —I am of opinion that the plan of keeping a fixed amount of securities, as a means by which to regulate a banking concern, is an erroneous plan and cannot be acted up to.

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2906. Do you go the length now of describing that rule in the same terms as those in which you have described it in the passage I have just quoted ?—With respect to the terms, I really do not think that I can be called upon to give a particular opinion respecting them ; I certainly do not at all alter the substance of the opinion contained in that passage.

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2908. Mr. *Hector*] Was it not the opinion of Dr. Adam Smith, that the present system of country banking was sound, and did not the Reports of the Bullion Com-

mittee of 1810, of which Mr. Horner was chairman, pronounce the establishment of country banks, issuing convertible paper, a most valuable and essential branch, and one of the greatest practical improvements of the political and domestic economy of the State?—I submit to the Committee, if it is wished to bring before them the opinion of Dr. Adam Smith, or the statement of the Bullion Committee of 1810, that the proper course of doing so is to lay before the Committee the works or documents in question, and not to obtain that evidence from a channel which must necessarily be very imperfect, namely, any statement, on my part, of what may have been written and published by them. I would also make a further remark, that opinions given upon this question so far back, are opinions which may, on many points, though given by authorities at that time of the highest character, be open to correction by subsequent experience, and the advances which have been made in the general knowledge of the public upon these subjects; and that the particular nature and character of the opinions here alluded to, and the particular grounds upon which those opinions rested, can be best discussed by the Committee themselves, with the documents referred to put before them.

2909. Mr. *Attwood*.] Do you not think that the Report of the Bullion Committee of 1810, and the work of Dr. Adam Smith, upon the nature of banks and of money, are as important for the guidance of the judgment of this Committee as those pamphlets, American and French, which you quoted in your evidence on the pre-

ceding day's examination?—I certainly think that the documents alluded to, namely, the publication by Dr. Adam Smith and the Report of the Bullion Committee of 1810, are documents entitled to very great respect on all hands, and, so far as the weight of personal authority is concerned, that they are entitled to more respect than the pamphlets from which I quoted the other day; but, on the other hand, the pamphlets from which I quoted are written at a subsequent period, and therefore by parties possessing advantages for forming a correct judgment on the present subject, greater than were possessed by the other parties alluded to. I would also add, that an erroneous opinion is sometimes expressed by a great authority, and that a very sound and valuable opinion sometimes falls from persons of inferior weight.

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2920. Are you aware that the general tenor of the authority of all the writers of eminence in Scotland, from Adam Smith to Walter Scott, is, that the Scotch system of paper money has been eminently conducive to the growth of the wealth and prosperity of Scotland?—I am aware that there has existed a feeling of considerable attachment in Scotland to its paper issues; but I believe that that feeling is, to a considerable degree, attributable to a confusion of views respecting the relative functions and effects of banking and of issue. The banks in Scotland, as banking concerns, are admirably organized, and I believe eminently beneficial to that country: as issuing bodies, I think the same praises cannot be bestowed upon them, and I am inclined to believe

that the Scotch people feeling the benefits which they have derived from those institutions, as banking institutions, have hastily attributed a large proportion of those benefits to the functions of issue, which they ought to have attributed to their functions as bankers.

2921. It is understood, then, that it is to the functions of issue in some greater or less degree, that the general authority of Scotland ascribes the advantages which they have derived from their banks?—How far it can be said that the general authority of Scotland has ascribed those great advantages to the banking system I am hardly prepared to say; certainly, considerable feeling has, on many occasions, been manifested in favour of that system. I believe that feeling has had reference to the banks of Scotland, as banking bodies, without sufficiently referring to the different functions of creators of money and dispensers of banking accommodation; and that the community have, on some occasions, apprehended that an alteration of any part of their functions would in reality be a destruction of the whole of them; an opinion which, I need not say, I think erroneous.

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2928. Your principles would lead to the establishment of a single issuing body if you thought the country prepared for it; is that the view that the Committee are to understand you to entertain?—In endeavouring to come to a clear understanding of a difficult and complicated subject, I apprehend that the true course always is, first, clearly to understand and ascertain what it is that principle, in its pure and abstract form, requires;

secondly, having formed a distinct view upon that point, then to consider what qualifications a regard to existing interests, or to other considerations of expediency, may require; and, thirdly, to consider how far the principle on the one hand, and the considerations of expediency on the other hand, can be reconciled with each other; or if they cannot be altogether reconciled, what tolerably satisfactory compromise can be proposed.

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2932. Dr. Adam Smith lays down the following position regarding convertible paper money, viz.:—
 “Paper money consisting of bank notes, issued by people of undoubted credit, payable on demand, without any condition, and in fact always readily paid as soon as presented, is in every respect equal in value to gold and silver, when the same gold and silver money can at any time be had for it. Whatever is either bought or sold for such paper must necessarily be bought and sold as cheap as it could have been for gold and silver.” It will follow from that position regarding such paper money, that it cannot exist in a state of depreciation on account of its immediate and certain convertibility; will you demonstrate to the Committee the contrary of this position, as laid down in your answer to question 2751?—
 I am sure the Committee will feel that, in answering this question, I am called upon to go into a discussion which, if I am to answer the question satisfactorily to my own mind, will involve me in a long essay; I will, however, put it as briefly as I possibly can. We all know that in the investigation of any scientific subject, as the human

mind proceeds, it arrives at the consideration of more and more minute points in the question ; that truth has been exemplified in practice in a very striking manner in the discussions upon the subject of currency and of the proper means of regulating paper money. The first great question regarding paper money was the means of preserving it of an equal value with metallic money ; and the first great step taken towards that object, was the step taken by the Bill of 1819, a step and a measure which never can be spoken of in terms too high, namely, the declaring the perpetual and constant convertibility of the notes into coin. The constant convertibility, however, was only a means to an end ; the end to be obtained was this ; the constant equality of value between the paper currency and the coin ; and the consequent equality of value was even only a means to another end, or, rather, the two things were perhaps to be considered as identical, viz., that the paper money should perform, neither more nor less, the same functions in sustaining credit, uphold the same extent of transactions, and maintain the same range of prices which would be sustained and upheld and maintained at each given time if the currency of the country were metallic ; that is the real meaning and the real spirit of the convertibility of notes. To that point we reached in the year 1819. Since that period, a close investigation of the events which have occurred has led observant and reflecting minds to perceive, that the constant right of converting your paper into gold does not secure with sufficient efficiency those which are really the ultimate ends and objects for which that convertibility

was established. They have found, or conceived that they have found, evidence that an extent of transactions and a range of prices may be maintained for limited periods under a convertible paper currency, which would not be maintained if that currency was really a metallic currency ; and that, to obviate that evil, a further regulation is necessary, which shall be sufficient to preserve the notes at all times precisely at that amount which the metallic currency would be, and that, consequently, a depreciation in a certain sense of the word, of a temporary nature, may take place and be compatible with convertibility. This is a result to which intelligent persons have arrived, not only in this country, but also in the other country to which our attention has been directed, viz., the United States. I do not think it is possible to quote, at the present moment, any authority upon questions of currency more justly deserving of attention than that of the American senator, Mr. Webster. I hold in my hand his speech upon the Sub-Treasury Bill delivered on the 12th of March, 1838 ; I will read one sentence of it as strikingly bearing upon this point : "I say, sir, a convertible paper currency ; for I lay it down as an unquestionable truth, that no paper can be made equal and kept equal to gold and silver, but such as is convertible into gold and silver on demand ; but I have gone further, and still go further than this, and I contend that even convertibility, though itself indispensable, is not a certain and unfailing ground of reliance. There is a liability to excessive issues of paper, even while paper is convertible at will ; of this

there can be no doubt. Where then shall a regulator be found? what principle of prevention may we rely on!" I do not know that I need read on, but it goes on to the further topic of the remedy and prevention.

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2953. *Sir Robt. Peel.*] Do not you think that the circulation since 1819, consisting partly of gold and partly of paper convertible into gold, has kept the whole mass of circulation much more steady in its value than it would have been if the paper had not been convertible into gold?—I have no doubt whatever that the establishing of convertibility in 1819, has tended to keep the fluctuations of the amount, and therefore of the value, of the currency of the country within narrower limits than they would have been kept within if there had been no such Act in existence.

2954. Do you see any reason to doubt that, upon the whole, whatever may have been the variation in prices, the value of the currency of this country has been tolerably steady since 1819?—The value of the currency, as regards the question now put, is liable to be affected by two circumstances; first, by the alteration in the value of gold itself; that is common to all suppositions, and therefore I do not advert to it; secondly, by the variations there have been in the value of the currency of the country since 1819, in consequence of its deviating from what would be the value of a metallic currency; and what these variations have been, I apprehend, is a question to be solved, by examining the fluctuations in the aggregate circulation of the country, and comparing those with the

fluctuations in the bullion. Wherever I find that the aggregate circulation of the country has not conformed to the fluctuations of the bullion, I then infer, that the aggregate circulation has deviated in its value from the metallic circulation, to the extent indicated by the deviation in the amount.

2955. Supposing the currency of this, or any other country, were purely metallic, would it be possible to take any precaution against very great fluctuations in the prices of articles?—Quite impossible; and were it possible, it would be extremely pernicious to attempt it.

2956. Variations occurring in the prices of articles, as measured in currency, would be no necessary impeachment of the system of currency?—None whatever.

2957. Is it not possible that in France, which has a currency more purely metallic than this country, there may be great variations in the prices of articles?—Certainly.

2958. In the case of all articles, the supply of which cannot be regulated by the discretion of those who are concerned in producing their production; for instance, in the case of all such articles as cotton, or tobacco, or corn, the amount of which depends upon seasons and physical causes, must we not expect, at times, the occurrence of great variations in price?—Certainly; nothing seems to me to be more absurd than to attribute all, or a large portion of the fluctuations in prices which take place in this country, to a derangement of the circulating medium of the country. I have no doubt, that in such a highly enterprising and accumulative country, having such extensive commercial relations, great fluctuations of

prices will take place at various times, under any system of circulation that could possibly be established.

2959. Supposing it should appear that, during three years, when the paper of the country was inconvertible, there were less fluctuations in the prices of articles than there have been since paper has been convertible, you would not consider that circumstance as the slightest proof in favour of inconvertible paper currency?—Certainly not.

2960. The prices of articles might have been altogether affected by other causes than the value of currency; no inference could be drawn from those variations of prices?—None whatever; I apprehend the principle is quite distinct and clear; the common sense of mankind has taken the precious metals as the best standard of value, though not a perfect one, which they could find; and when countries proceed, from other considerations, to use paper instead of using the precious metals, they have nothing to do beyond the simple fact, of seeing that that paper constantly corresponds in amount to what the amount of the precious metals would have been. If that is not done, the consequences arising from omitting to do it are justly chargeable to the legislature or government which neglects its duty; but if that duty be performed, all fluctuations of prices which take place, are entirely the operation of natural causes, and are only to be met by a free circulation of the capital of the country, and by the exercise of individual discretion.

2961. Supposing it should be true, that, since the year 1819 there have been greater variations in prices

than in former periods, do you think that evil would have been at all diminished, supposing every person had been allowed to issue notes without the liability to pay them in coin?—No, not at all diminished; I have no doubt whatever that any process of that kind would most materially have aggravated whatever evils or inconveniences may be supposed to have taken place. Natural circumstances tend to create considerable disturbance in prices, but if, in addition to these circumstances, there be at the same time an absence of the due regulation of the paper currency in which those transactions are adjusted, the want of that due regulation will intensify the evil, and intensify it very seriously.

2962. The Act of 1819, which made paper issues convertible into gold, must, if it had any effect upon the prices of articles, have had a tendency rather to correct fluctuations of price than to increase them?—I have no doubt whatever, that the Act of 1819, to whatever extent it has been carried out, has tended to cut off that portion of the fluctuations of prices which is attributable to an unnatural state of currency, and to leave us subject only to those fluctuations of prices which arise out of the existing condition of this country, as regards the extent both of its capital and of its commercial relations.

2963. When you advise that there should be one bank of issue, you give that advice for the purpose of taking additional securities against fluctuations in the value of paper currency?—Certainly.

2964. You think that competition has a tendency to cause variations in the value of paper currency, and

prevent its conformity with the gold that it represents?—
Yes.

2965. Therefore, the object you are principally aiming at, in recommending a single bank of issue, is to insure steadiness in the value of that mixed currency in which the value of other articles is measured?—A steadiness equal to that of metallic money.

2966. Approaching, as far as possible, to that state of things in which the circulation would only vary in value on account of variations in the production of the precious metals?—Variations in the production of the precious metals themselves, and variations in the circumstances which distribute them in certain portions to different countries.

2967. Do not you think that experience has shown us, with respect to currency, several facts to which Dr. Adam Smith and the earlier writers did not advert; for instance, the tendency of a small note circulation to answer the purpose of gold, and therefore to exclude gold from circulation?—Yes; if I might give an illustration, I should say, that to quote the authority of Dr. Adam Smith now, as conclusive against the opinions which are formed upon events and facts which have come to light since his time, is really the same thing as if you were to quote the authority of Tycho Brahe or Copernicus against the discoveries which have been made in astronomy at the present day, by persons inferior to them in ability and inferior to them in authority under equal circumstances, but far advanced in knowledge beyond what they were.

2968. Suppose that in 1819 we had adopted, as some

proposed, a different standard from that which was adopted; that, for instance, we had made 3*l.* 17*s.* 10*d.* pass nominally for 5*l.*, paper being still convertible into gold at that standard; would that alteration have made any difference whatever in the fluctuations of prices; would it not have left prices to fluctuate precisely as they do now?—It would have made no difference whatever in the fluctuations of prices; whatever you had taken for your standard, at that time, would have produced a difference at the time of adjusting things to that new standard; but when once they had been so adjusted to that new standard, all the difficulties now urged against the present system would have existed under the new system, and would probably have been aggravated by a constant feeling of uncertainty and a consequent want of firmness of purpose arising out of a disastrous and fatal hope of a further alteration of the standard. I believe the Bill of 1819 to have been founded upon the wisest principles of justice and policy; I believe nothing can be more fallacious than the grounds upon which it is attempted to disturb the foundations upon which that Bill was established; and I believe that nothing can be more dangerous and destructive to the stable prosperity of this country, than to shake the public mind upon that subject.

2969. Mr. *Attwood*.] You have stated that the tendency of the Act of 1819 was to correct variations in prices; but in spite of that tendency, has any material improvement in the variations of prices taken place since that period?—I stated that the tendency of the Act

of 1819 was to correct any variations in prices which might arise directly from the mismanagement of the paper circulation of the country; and I believe that that Act has, to a considerable extent, accomplished that result; and that, to whatever extent it has failed to accomplish that result, that has been because the letter, more than the spirit of that Act has been adhered to; that is to say, we have relied upon convertibility only, without paying sufficient attention to the secondary point, namely, the maintenance at every moment of paper money equal in amount to what the metallic money would be.

2970. The question is entirely as to the fact; has the country been better protected against extensive variations in prices since the Act of 1819 than it formerly was?—I really am extremely sorry to trouble the Committee with a repetition of distinctions which have been drawn over and over again; I cannot answer that question without going into the distinction between that class of fluctuations in prices which is connected with mismanagement of the circulation, and that which is connected with the general monetary and commercial state of the country. The Act of 1819 has nothing whatever to do with the latter; it deals with the former; it has dealt with the former, in my judgment, successfully, but not with perfect success, because the letter and not the spirit of the Act has been enforced.

2971. Will you confine yourself to the question, as to the fact of the fluctuations of prices, without embarrassing yourself with the question how they have arisen, and say whether against any excessive fluctuations of prices

however originating, the country has possessed any greater security, in effect, since the Act of 1819 than it experienced before?—Excessive fluctuations in prices, I apprehend, mean fluctuations in prices which ought not to take place.

2972. It does not mean that; it means excessive fluctuations from high to low, and from low to high, leaving out of the question whether they ought or ought not to take place?—Again I am asked about facts of which I have no knowledge beyond that which the questioner has, and beyond that which every member of the Committee has. I can only state what I have stated before, that fluctuations of prices have taken place since 1819, and that fluctuations of prices had taken place previously to 1819; I have before stated that I do not see, between the comparative fluctuations of prices before and after 1819, any clear and marked distinctions; and I have before stated that which I must always introduce into my answers to questions of this nature, namely, that that portion of the fluctuations of prices which arises from the mismanagement of the circulation, has been corrected by the Bill of 1819 to a great degree, and would have been completely corrected, if the spirit instead of the letter had been acted up to.

2973. *Chairman.*] Since variations in prices arise from two causes, partly from variations in the currency, and partly from variations in commodities; and since those two independent variations may run, sometimes in accordance with, and sometimes counter to, one another; will not the difference between the extremes, when both

variations conspire together, necessarily be greater than where one variation only is to be taken into account?—There can be no doubt whatever of the accuracy of the doctrine propounded in the question. The fluctuation in prices may at one time be the sum of the two fluctuations; at another time it may be their difference.

2974-5. Mr. *Hector*.] You state that the country issuer should regulate his issues by the stock of bullion in the Bank of England; do you not think that it would be a safer and better rule for him to regulate his issues by the amount of his own resources, rather than by the resources of another establishment?—There seems to me, in that question, to be what I should call a very strange confusion of ideas, if it was not the fact, that it is a confusion we continually meet with. In the first place, I have recommended, that the aggregate paper circulation of the country should conform in its amount to the bullion: in the next place the questioner asks, “whether it is not better that the country banker should regulate his issues with reference to his own resources, rather than to the resources of another establishment?”—I have made no allusion whatever to regulating the issues of the country banker by reference to the resources of the Bank of England; I have made allusion to their regulating their circulation by reference to the bullion in the Bank of England, a thing totally different from its resources. The Bank of England may be a body having very enormous resources, or it may be a body having very deficient resources; upon either supposition, the regulation of the paper currency has reference to the store of bullion, and

not to the resources of the Bank; and for this clear reason, that if you once make the resources of the Bank the ground upon which to regulate the issues, that is a principle which goes, in reality, to the extent of making the property of the country a measure of the amount of the circulation. Now, the amount of the precious metals assigned to any given country is not equal in amount to the property of the country, nor do the variations in the amount of the precious metals correspond to the variations in the amount of property; and consequently any plan for the regulation of paper issues, which depends upon the principle of making the amount of the issues correspond to the extent of the resources, or of the property of the issuers, must lead to the most erroneous results.

2976. Have you any reason for thinking that the country issuers have felt any scarcity of gold for the support of their local circulation, during the year 1839, so that they have not, in point of fact, always had resources by them sufficient for their business?—This question again seems to me only to prove the prevalence of a most erroneous view of the principle upon which the paper circulation of the country is to be regulated. The question assumes, that the only duty incumbent on the country issuer, is that of providing the gold requisite for the wants of his business; whereas, the real duty, incumbent upon the aggregate body of the paper issuers of the country, is to provide that gold which is requisite to meet the demands of the foreign exchange. According to the present system, that duty falls exclusively upon the Bank of England; consequently, upon the body which issues

about one-half of the paper money of the country, is devolved the duty of finding all the gold really requisite for maintaining its equality of value with the exchanges of other countries; and the evil consequences of this arrangement seem to me to be clearly indicated in the very nature of this question; because it is clear from the tone of the question that the party putting it conceives that he has no connexion whatever with the duty of keeping the aggregate paper circulation at that amount which would prevent the export of gold, but that his duty is sufficiently discharged, if he has in his till gold sufficient to meet his banking business; and that, of course, he can most easily have at any time, because a few hours' delay enables him to convert all his securities into gold, at the expense of the Bank of England.

2977. On whatever principle the question proceeds, will you be so good as to answer it? [*The question was read.*]—I have no knowledge whatever upon that point, and no means of forming an opinion one way or the other. During that period, the Bank of England was the provider of gold for the general wants of the circulation, and she was very insufficiently provided; and I think it is a matter of clear proof that that difficulty arose from the undue amount of paper issues at that time, both on her own part and on the part of the country issuers.

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2982. With reference to your opinion, that the local circulation of the country should conform to the stock of bullion in the Bank of England, do you mean to say, as an example, that the exportation of bullion, arising from

the sale of foreign securities, should diminish the local circulation of the agricultural county of Norfolk?— Perhaps the best mode of answering the question is by making as short a statement as I possibly can of my general view of the principles upon which a paper currency ought to be regulated. I conceive that the whole paper currency of the country should conform in its fluctuations to the fluctuations of the bullion; and when I see that paper currency divided into two great classes, I very naturally assume, in general reasoning, that each of those classes should conform rateably to the duty that falls upon the aggregate; but when the division is carried further into minute points, it certainly does not necessarily follow that, because the aggregate paper circulation of the country requires a reduction, in consequence of the export of bullion, that, therefore, a *pro rata* reduction must take place in any given point. It is undoubtedly perfectly possible that even an increase might take place at that particular moment, at that particular point; that is quite unascertainable under our present system; and if I wanted to find more grounds of objection to the present system than have been already adverted to, I should take that as one of them. It is impossible to say, under our present system, when a reduction of the aggregate paper circulation is required by an export of gold, whether an increase of paper circulation in a particular town by a bank existing in that particular town, is, or is not, a proper increase. There are no means of positively ascertaining that point; all that can be said is, that an efflux of gold requires a reduction in the aggregate paper

circulation of the country, and in the absence of any specific proof at the time, with reference to any particular place, it is necessarily assumed that that reduction ought to be rateable in its proportion.

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3000. Mr. *Hector*] Do the country issues act prejudicially to the affairs of the Bank of England; and if they do, in what way?—The only point in which I allude to the effects of the country issues, is in their effects upon the state of the bullion, and of course, therefore, in the effects they may have in counteracting any measures resorted to by the Bank, or any other measures that may arise out of the public action for the purpose of protecting bullion, when it is under the operation of a drain; the question, therefore is, in what way the country issues tend to produce that effect; and in explanation of that point of the question, I have already read a paragraph from the letter in question, which seems to me to be a simple and satisfactory answer.

3001. Have you any knowledge concerning the county circulation, but what you collect from the printed returns?—My reasonings respecting the effects of the country circulation on the general management of the circulation of the country are certainly founded upon the printed returns which are laid before Parliament for that purpose, and from no other source.

3002. You object to the management by the country banks of their issues, upon the sole ground of the fluctuations in those issues, as stated in the printed returns, not being in conformity with the fluctuations as shown

by the printed returns in the issues of the Bank of England; have you any knowledge of the actual circumstances which occasioned those fluctuations? — I simply object to those fluctuations, upon the ground that they do not correspond in any way with the fluctuations in the bullion; and therefore they are not those fluctuations which we have a right to infer would take place with a metallic currency; I have no further knowledge respecting them.

3003. Have you anything to urge against the conduct and condition of private country banks since the year 1825?—I know of nothing to urge against the conduct or condition of the private country banks at any period whatever; I believe that, as country banks, they are highly respectable institutions, and that, as a system, they are highly useful and beneficial to the community, and that the character of the individuals who administer them is that which is highly creditable to the country; my objections are entirely objections of a philosophical nature, resting upon the discussion of philosophical principles; namely, that the paper circulation of this country, as at present administered, is upon a system which must necessarily lead to fluctuations in its amount, not accordant with that principle by which the fluctuations ought to be regulated.

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23rd JULY, 1840.

3006. *Chairman.*] Is there any explanation of the evidence you gave yesterday, or the previous day, that

you wish to make?—There was one question put to me nearly at the close of my evidence yesterday, the purport of which was this, “In what way have the country issuers acted injuriously to the affairs of the Bank of England?” In confirmation and support of the answer I gave to that question, I am anxious to draw the attention of the Committee to the evidence of Mr. Tooke, in 1832, in answer to the queries 3906–7–8; the questions and answers are these, “Supposing you to be correct in your opinion, what power does the Bank of England possess so to control the issues of country bankers’ paper, as to prevent country banks from doing what they did in the years 1824 and 1825, namely, at a period of great overtrading, increasing their issues to the great amount which they did at those periods?—I conceive that the Bank of England has a very imperfect power of controlling the country circulation, and that is the ground on which I stated, that were it not for great difficulties of detail, I should prefer the circulation for the country emanating from the same source as that for the metropolis. There can be no doubt that the Bank, under particular circumstances, is liable to a very great and sudden drain, in consequence of the misconduct of the administrators of the country circulation.” “If the country banks issue their paper without reference to the state of foreign exchanges, and in proportion to the demand upon them for it for good bills, and so forth, is it not in the power of the country banks to create a redundant currency, though the Bank of England may, as far as it is concerned, do nothing towards that end?—For intervals of

some length that may be the case." "In our present system of banking, are we not exposed to all the evils that necessarily follow a state of redundant currency, a fall of exchange, a fall of prices, a panic and drains upon the Bank of England?—As long as we have paper money issues, as a great part of our circulating medium, I do not see how that evil can be altogether avoided; as I said before, if the Bank of England, or a Government bank, was the sole source of issue, that inconvenience might not arise; but the competition of banking necessarily gives rise to that risk, and I do not see how that can be avoided, unless possibly that joint stock banks were to be substituted for the present system, and they were likewise subject to the conditions of publishing their accounts; that might be some check; but at the same time I am not prepared at present to give a confident opinion about the details of the country circulation; because, excepting the manner in which it has contributed to the derangement of the circulation generally, I am not sufficiently acquainted with the details of the mode in which the country banks manage their circulation." I would only wish to add that I have no sort of charge or complaint to make against the country bankers, as far as banking is concerned; in that respect I believe them to be useful institutions, and I give them, what I believe they deserve, every possible praise; it is only to the principle upon which they state that they manage their paper issues, that I object.

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3024. *Chairman.*] According to correct principles, if the whole issues of the country were under that sort of

regulation which you would recommend, the exportation of six millions of gold from this country would be attended by the cancelling only of six millions of notes in the aggregate?—Undoubtedly.

3025. Partly consisting of Bank of England issues, and partly of other descriptions of issues?—Upon the principle which I contend for, I apprehend that when an export of gold took place from the country, there would be a cancelling of paper notes to an equal amount, and that the effect of that contraction of paper money would distribute itself, by natural circumstances, over the country, in a legitimate manner.

3026. Mr. *Hector*.] Does not the principal circulation of Lancashire consist of bills of exchange?—As I contend that bills of exchange do not form a part of the circulation, of course I am bound, in answer to that question, to say no.

3027. Is there not a large quantity of bills of exchange in circulation in Lancashire?—Undoubtedly, wherever a large mass of mercantile or trading transactions are taking place, there will exist a large amount of bills of exchange; and that is the case, to a great extent, in Lancashire.

3028. Do not the bills exceed, to an immense amount, the issue of notes payable on demand in Lancashire?—Undoubtedly they do, to a great amount.

3029. Does not the amount of bills, drawn by your house in Manchester upon your London house, together with the bills drawn upon you by your customers, and endorsed by the Manchester bank, greatly exceed all the

Bank of England notes circulated in that town?—Certainly not, nor any thing approaching to it.

3030. What proportion do you think the bills drawn and endorsed by your Manchester house bear to the note circulation of that town?—I really cannot form the slightest estimate as to the proportion.

3031. Do you pay away bills of exchange which you have received from your customers in Manchester, with your endorsement, in the way of business?—We do not at present.

3032. Have you so done?—We have.

3033. Within what period?—I cannot answer that; I cannot state the period at all.

3034. Do not those bills, drawn and endorsed by your house, payable at various dates, form an important part of the general currency of Manchester and the leading towns?—I must again state that that question, if it means any thing more than has already been stated, at once raises again the question of the principles of currency.

3035. The following opinion was expressed by Mr. Lewis Loyd before the Committee of the House of Lords in 1826, on the circulation of promissory notes under the value of 5*l.* in Scotland and Ireland: “Before those provincial notes were introduced, what proportion, in your estimation, did the bills of exchange bear to the gold and Bank of England notes in circulation throughout Lancashire?—It is difficult to answer that question with any accuracy; I should say that they were at least nine parts out of ten; nine parts bills of exchange, and the tenth part gold and Bank of England notes; I am inclined

to think the bills of exchange bore a still greater proportion." Do you agree in that opinion of Mr. Lewis Loyd?—The statement quoted refers I believe to the state of things preceding the year 1819; I am not competent to say how far it was a correct or incorrect account of the state of things at that time; but it is a statement which has no reference whatever to the state of things at present.

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3037. In point of fact, do not bills of exchange circulate, in all respects, as money, in Manchester in mercantile transactions?—I must again say, that, according to my judgment, bills of exchange do not circulate as money; I consider that their nature, their character, their functions, the circumstances in which they originate, and the effects which they produce, are totally different from those of money.

3038. Are they not made use of for all purposes of mercantile transactions as representatives of money?—Perhaps the best way of answering that question is at once to enter upon the question of the principle of the distinction between bills of exchange and money; I have already touched upon that subject as shortly as I could, knowing how much the Committee had been wearied with the discussion previously; but if it is the wish of the Committee to discuss that subject more at length, of course, painful as these examinations are to me, I must go into it again.

3039. Do you think the internal trade of the country should be regulated and maintained by as steady and

equable prices as possible?—The idea of regulating the trade of the country by equable prices, if I might say so with proper deference to the Committee, seems to me to be nonsense.

3040. Do you think the wages of agriculture and manufactures should be as little disturbed as possible by fluctuations of prices?—I apprehend that fluctuations of prices must be attended with some inconveniences; but I am quite confident that any attempt to regulate the range of prices by artificial interferences would produce inconveniences infinitely greater.

3041. When the Bank of England acts upon currency to restore the exchanges, is the object supposed to be accomplished by a reduction in the prices of exportable commodities?—When the exchanges are in an unfavourable state, I apprehend, that is evidence that the relation of the money of the country to the commodities of the country is such that it is more profitable to export money than to export commodities, and the action on the part of the managers of the circulation ought to be, and I presume is, directed to restoring such a relative state between money and commodities as shall render it the interest of the community at large to export such a quantity of commodities as shall prevent a further export of money.

3042. If there was but one bank of issue, would not its contractions act upon prices generally?—Contraction by one bank of issue will be calculated to raise the value of the money of the country.

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3072. Mr. *Attwood*.] Can you say in what manner the

laws which regulate the distribution of the precious metals operate differently in this country upon the amount of cash paper payable on demand, from the manner in which they operate upon bills of exchange not payable on demand?—The difference consists in this; paper notes payable on demand ought to fluctuate precisely in correspondence with the bullion, and therefore the laws which distribute the precious metals to the different countries of the world determine directly and exclusively the amount of the paper notes. Bills of exchange are liable to fluctuate with every fluctuation of price in one or more commodities, with every change in the activity of commercial affairs, with the increase or decrease of credit, and other circumstances. Consequently the laws which distribute the precious metals, and determine directly the amount of the paper notes, have only a limited and indirect influence over the amount of bills of exchange.

3073. Those circumstances have operated upon paper money payable on demand, as it has been previously issued in this country?—They have, in some degree, certainly.

3074. Would it not be necessary, then, to have a control over the amount of bills of exchange equal to that which you consider to be necessary over the amount of paper money payable on demand?—I am decidedly of opinion that it would not be necessary, nor that it would be right. I look upon bills of exchange as a form of banking transactions, and I look upon all banking transactions as various forms of credit. Now, I conceive that to put a direct restraint upon any of the forms of credit

would be contrary to sound principle. I apprehend the sound principle to be, that you put a correct restraint, founded on principle, upon the paper money of the country; and that being strictly and correctly regulated, all transactions, all forms of credit, all the superstructure that is raised, upon that paper money will then be kept within their legitimate bounds.

3075. Do the laws which regulate the distribution of the precious metals in every country, determine as much, other things remaining unchanged, the amount of bills of exchange circulating in any particular country, as they determine the amount of cash paper payable on demand, circulating in that country?—No, certainly they do not; the laws which distribute the precious metals among the different countries of the world, determine absolutely and exclusively the amount of paper notes, always supposing a proper regulation of them; but there are a vast variety of circumstances that have their share in determining the amount or the number of bills of exchange, and which ought to have no influence upon the amount of paper notes.

3076. Do not the laws which regulate the amount of precious metals in this country, ultimately determine the amount of paper money payable on demand, circulated in this country, under the system which has been hitherto adopted?—I apprehend that that was the very principle of establishing the convertibility of the paper notes, that the laws, which distribute the precious metals throughout the world, should, in assigning a certain quantity of the precious metals to this country, ultimately determine the amount of paper money of this country; and I apprehend

that the question upon which this Committee is now sitting, and to which its inquiry has been directed, is, the question of the extent and effects of temporary deviations of the amount of the paper money from that which would be its amount were it strictly regulated by the amount of the precious metals; that the paper money has, in the main, conformed to the amount of the precious metals, is true; otherwise its convertibility would long since have been gone; but the question is, whether it has been subject to temporary deviations from that conformity, of a nature so menacing, and so seriously endangering convertibility, as to call upon the country to take the best means of obviating that danger for the future.

3077. You have spoken of the system of paper money in this country being conducted with many deviations from sound principles; can this country, or can any country, by means of those deviations, prevent the amount of its paper money payable on demand from being permanently governed by the laws which distribute to that country its proper proportion of the precious metals?— So long as the paper notes really are paid on demand, of course they must conform to that amount which the laws, regulating the precious metals, assign to that country; but the question really before us is this; under the existing system the deviations from the state requisite to be maintained for the certain preservation of convertibility have been such, that reflecting persons, and indeed the whole community, have been seriously apprehensive that payment in gold on demand would cease; and therefore we are now dealing, not with an evil that has actually

occurred, but with a danger of the occurrence of that evil which has been of the most imminent and alarming kind.

3078. Then, must not the amount of bills of exchange be permanently determined by the same laws, other things remaining unchanged? — I have many difficulties in answering these questions, and one difficulty arises from not being sure that we always carry with us the full consequences of the assumption contained in the words “other things remaining unchanged;” I can only re-state what I have before stated, namely, that a certain law distributes the precious metals of the world, in certain proportions, to the different countries of the world, and that it is the business of a well-regulated paper-money system, to see that the paper money is in amount equal to what the precious metals, according to that law, would be. When we come to the question of bills of exchange, there are a variety of other circumstances which affect the amount of them. Under the supposed regulation of paper money, there will, undoubtedly, be fluctuations in prices, fluctuations in the state of speculation, stagnation or activity in the commercial affairs of the country; all of which circumstances will produce their effects upon the amount and number of bills of exchange, and ought not to produce the same effects upon the paper circulation.

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3082. Does it follow that, when you exclude bills of exchange from your definition of the word “circulation,” you refer to the money of this country as conducted according to a new system, and not as conducted according to the system under which it has been hitherto con-

ducted?—When I give a definition of “currency,” of course it is of currency in the abstract; it is that which currency ought to be; that definition, properly laid down and properly applied, will include paper notes payable on demand, and it will exclude bills of exchange; and I really do not understand the reasoning process of a mind that would endeavour to upset so clear and simple a principle of reasoning, by saying that the paper notes, as they have been managed in this country, have not conformed strictly to the proper laws of management, and therefore that they no longer come under the definition; the definition is a definition founded upon the abstract propriety of the case; the notes, under the existing system of managing the paper circulation in this country, approach to that definition; but, from mismanagement, they do not perfectly and completely conform to it.

3083. Do you then mean to say that the reason which you have given in answer to question 2663, for not including bills of exchange in the circulation, is a well-founded reason?—I do; I think the distinction which I have drawn between bills of exchange and circulation, and which I have drawn upon principle, remains wholly unshaken by the course of my examination.

3084. The question refers to the answer which has been given to question 2663, which is, that they are excluded from the circulation, for this reason among other reasons, because the amount of them is not determined by the laws which determine the amount of the precious metals in each country?—I think that is a distinguishing circumstance.

3085. Mr. *Ellice*.] Assuming the currency to be established upon the principle which you have stated to be the only safe one, that of regulating the fluctuations of paper by the fluctuations in the amount of bullion, what deposit of bullion in proportion to the issue of paper, either in one bank of issue, or in the several Banks of England, Scotland and Ireland, to which the issue of paper might be committed, would you consider sufficient to insure permanent convertibility? — Of course, the amount of bullion which would be requisite to preserve the power of paying in specie at all times and under all circumstances, under a proper management of the paper circulation, must be a matter to be ascertained by experience, and which cannot be determined by principle. At present we are so wide from the application of the strict principle of management assumed, that I do not think our experience is sufficient to enable us to answer the question with any degree of confidence; all that can be said is, that you must begin that system with a sufficient reserve of bullion; and I should have no hesitation whatever in saying, that whatever reserve of bullion has under the existing system been found to be sufficient, would be found to be amply sufficient under the new system proposed; and I should fully anticipate that our experience would soon justify us in reducing that amount.

3086. What has that sufficient amount of bullion in your opinion been at any one time, proportionately to the whole issue of paper money in Great Britain?—I should say that if you took it at one-third, at a period of full

currency, you would have a very ample amount of bullion; but I am speaking rather loosely upon the point.

3087. Has that proportion of bullion to the whole issues ever been in deposit in the Bank of England, or, as far as your information goes, in the several Banks of England, Scotland and Ireland, which have been in the habit of issuing paper money since the passing of Mr. Peel's Bill in 1819?—I should imagine that there have been periods in which bullion has been in the hands of the Bank of England, equal to one-third of the aggregate paper circulation of the country.

3088. That has been a very rare exception to the general rule, since the passing of Mr. Peel's Bill, in 1819?—That has not been commonly the case, certainly; nor do I contemplate that it should be the case, except at a period of full currency.

3089. Assuming the stock of bullion now in the Bank to be four millions; and that in deposits, in the country banks, to be two millions; and assuming the paper of the Bank of England to be 18 millions; that of the English country banks, 12 millions; that of the Scotch, four millions; and that of the Irish, six millions; being an aggregate amount of paper of 40 millions; must there not be either a large additional stock of bullion, or a large reduction of paper, to restore the proportions of both to the relative amount at which they ought to continue, with a view to insure the permanent convertibility of paper, and the efficient accomplishment of the object intended to be provided for by the Bill of 1819?—I must

appeal to the common sense of every member of the Committee, whether these are not questions, which in fairness to a witness, and still more for the elucidation of the truth, should be given to him in writing, before he is called upon to answer them ; but at the same time, if the purport and drift of the question is merely to ascertain whether, in my judgment, the provisions of the Bill of 1819, and the real spirit of it, can be maintained in this country, without a degree of pressure which the country is unable or unfit to bear, I have no hesitation in giving my opinion upon that point ; because it is an opinion that is not unconsidered. The meaning of the Bill of 1819, I apprehend to have been this ; that the transactions of the country, the whole superstructure of credit, of speculation, and of prices, should be placed in that state in which they would have been if we had reverted to a metallic currency ; and that they should, from that time forth, be kept in that state. I believe that we have approached very closely to that state ; so closely, that there would have been no further pressure upon the country required, to have kept ourselves continually in that state. I believe, the pressure upon the country has been increased, in consequence of our not adhering strictly to the spirit of that Bill ; and I would follow that observation out through the various periods to which I have already alluded in my examination. I would take the paper that is now in my hand, beginning at the commencement of the year 1834. At that time, the bullion in the Bank of England exceeded 10 millions, the Bank circulation was 18 millions, the country circulation was

10 millions ; the aggregate circulation therefore was 28,000,000*l.* ; I believe that if we had started from that period with a firm determination to adhere to principle, in spite of all the cavils that ingenious logic could raise against it, and had said, " We have the Bill of 1819 to carry out in its true spirit, and that we must do, by always keeping the paper circulation precisely at that which would have been its amount had it been a metallic circulation," that we might have proceeded from that point without difficulty and without embarrassment ; I mean without more difficulty and embarrassment than will periodically recur in a country so highly commercial and enterprising as England is. I think that fact may be substantiated to any candid observing mind, by tracing the progress of these tables ; 1834 and 1835 were a period of ease in the trading and mercantile world ; they were a period, during which mischief was gradually growing up, that is to say, prices and speculation were increasing ; and during that period we allowed the paper circulation to continue at this high amount, though the amount of bullion had begun to diminish. If we had then begun to contract, instead of, as we did, to expand the aggregate paper circulation of the country, I believe that the intensity of the pressure which ultimately occurred would have been greatly diminished, it would have been a pressure that would have produced no serious mischief to any class, and the application of the principle which we are discussing would have prevented the really hard and severe pressure that occurred some eighteen months or two years afterwards. The frequent occurrence of severe

commercial pressure is no proof of any inherent and unavoidable difficulty in carrying out the Bill of 1819 ; it is more properly to be attributed to that mismanagement of our paper circulation which allows it to deviate from what would be the course of a metallic currency. Thus, in consequence of the non-application of that early corrective which a strict enforcement of the spirit of the Bill of 1819 would ensure, speculation, which will occur from a thousand causes, is permitted to run to an unnatural height, and terminates, of course, in a corresponding convulsion. If we look to the condition of things at the periods to which the restraint would be applied, if it was applied in the first stage of the drain, we invariably find that it was a condition of things, which, according to all human estimate, would have borne restraint, and have borne it in a manner not productive of any serious evils to the community, but rather of advantage. I think it is a very fallacious view of the great catastrophes that have occasionally happened at the termination of a heavy drain, which considers them as periods and conditions of things which we must necessarily go through upon our present principle of specie payments. I believe they are consequences brought upon us because we want the manliness and courage to meet the first difficulty, to submit to the first sacrifice ; and the consequence is, that, in the end, we are forced to submit to much greater evils and much greater sacrifices.

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3092. Mr. *Hume*.] Have you, as a London banker, an account with the Bank of England ?—Yes.

3093. In what shape do you keep your current funds ; do you hold them in the shape of Bank of England paper and coin, or in the shape of deposits in the Bank of England ?—Partly in both ways.

3094. Has not the modern practice of banking rather tended to decrease the amount held in Bank of England notes in your till, and to increase the amount held in deposit in the Bank ?—I really cannot say whether there is an increasing tendency of that kind or not ; that exists, no doubt, to a considerable extent.

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3101. Are not the Bank of England notes, deposited by you in the Bank of England, as much at your disposal as if they were in your own banking-house ?—No.

3102. What is the difference ?—In the one case I am sure I can have them when I like, and in the other case I have only a general belief that I can have them when I like.

3103. Have you known any instance where an application has been made by you to the Bank of England to draw out your notes, and you were disappointed ?—No ; but I am sure that if all who had notes in the Bank of England, were to apply simultaneously, that would happen.

3104. Do you not keep constantly a certain amount of bank notes in your own banking-house ?—Not a certain amount ; some amount.

3105. Do you not keep also an amount in the Bank of England ?—Yes.

3106. Are you aware that, in the official return of the Bank of England, the notes deposited by you appear as deposits?—Yes.

3107. Are you aware that the notes that are kept in your own banking-house, appear, in that official return, as circulation?—Yes.

3108. Does the circumstance, of a certain amount of bank notes belonging to you being returned by the Bank of England, as deposits, alter their nature, or change their value?—It does.

3109. Why?—Deposit business is a mode of economizing the use of the circulation; by means of resorting to that process, a greater amount of obligations or of transactions can be adjusted with a smaller amount of circulating medium than could otherwise take place. The amount of deposits which the Bank of England, or any other bank, holds, is worked by that concern with a certain reserve of bank notes, which reserve is measured in its extent by what that concern considers to be the average quantity of demand that will be made upon it. By that means, that reserve is enabled to perform an amount of business which, without the process of banking deposit business, it would have required an amount of circulation equal to the whole deposits to have performed. By that means, undoubtedly, an economic use of the circulation is effected; but an economic use of the circulation is not itself circulation. When you put the question, are not the bank notes in my till, and the bank notes deposited by me in the hands of the Bank of England, equally at my disposal, it is undoubtedly true that they are; but it

is true only with respect to the bank notes which I have in the Bank of England, upon the supposition that all persons, similarly circumstanced with myself, do not act simultaneously. The Bank of England, or any other banker, can clearly pay his deposits only to the extent of the banking reserve in his till. The banking reserve in his till is the money with which that business is worked, and constitutes the amount of circulation. It is to mistake the amount of business done for the instrument with which it is done, to call deposits circulation. Deposits are the business worked; the reserve in the banking till is the instrument with which they are worked; and the business by which your instrument is worked, is the circulation or money of the country.

3110. Are not the bank notes deposited by you in the Bank of England as much at your disposal for ordinary purposes of commerce as they would be if kept in your own house?—No; I have answered that question already, and I have given an explanation of the answer.

3111. You have stated in your answer, that if other persons were to act simultaneously, the notes could not be applicable; but the question applied to your own transactions?—Yes; but as we are here reasoning upon a philosophical question, we must clearly understand this, that that which is true of any one individual, is not therefore necessarily true of a large aggregate of individuals, simultaneously. You may split every thing into its subordinate parts, and affirm of each part, separately, that which will not be true of the whole, simultaneously, in the aggregate.

8112. Suppose you have two places in your own premises in which you lock up your bank notes, one-half in one room, and another half in the other; will the calling one "circulation" and the other "deposits" make any difference in their value or the uses to which you could apply them?—No; mere difference of name can make no difference in substance.

8113. If your money, then, be a million sterling, and half of it be retained in your own premises, and another half be deposited in the Bank of England, will the value of the whole be in any degree lessened?—Provided the portion deposited in the Bank of England remain in precisely the same state in which that portion which is deposited in my own till remains, there is no difference.

8114. Have you any doubt that money placed in the Bank of England remains as safe as in your own premises?—"Safe" does not include all that is involved in my answer.

8115. What more, then, is involved in your answer?—By remaining precisely in the same state, I mean that that portion of my money which is placed in the Bank, remains in the condition of money in the Bank till, precisely as it remains in the condition of money in my own till.

8116. In that case, are not both sums of equal value?—Yes.

8117. Does the calling one "deposit," and the other "circulation," make any variation, then?—No; no variation can be made; by calling a thing by another name, you cannot thereby alter its nature; and so long as the

deposit in the Bank is precisely identical with the deposit in my own till, it is precisely the same ; but the question turns altogether upon this fact ; my deposit in the Bank of England does not remain in the form of money in the Bank ; a large portion of it is re-invested, and the Bank dispossesses itself of that portion.

3118. Though the Bank may dispossess itself, by an investment, of a portion of your money, is not the Bank liable, and would not the Bank pay you, on demand, the amount you have deposited, whatever use they have made of it ?—Undoubtedly the Bank is liable to pay ; but then the moment we assume, on the part of the Bank, mere liability to pay, and not an actual retention of the money for that purpose, my connexion with the Bank assumes the form of a debt owing.

3119. It is a debt payable on demand ?—Yes.

3120. Is not a bank note in your hands a debt owing by the Bank ?—Yes.

3121. What difference, then, is there between the bank note you hold in your hand, and the money you deposit in the Bank ?—The difference is this ; in one case, the debt has assumed that form which makes it the representative of metallic coin, for all purposes ; in the other case, it has not assumed a form which gives it those properties.

3122. Does not the money in the Bank assume the form of metallic money, as well as a Bank of England note ?—Money in the Bank does ; but we are speaking of a debt owing by the Bank, and not of money in the Bank.

3123. Suppose you have a balance of 100,000*l.* in the Bank of England, and that one of your customers has accepted bills to the amount of 20,000*l.* payable at your house, and that those bills have been discounted at the Bank of England; will not those bills, when they become due, be presented by the Bank at your house for payment?—Undoubtedly, if the bill is accepted, payable at my house, and I hold funds wherewith to pay it, it will be paid when it is presented for payment.

3124. If the customer has lodged the necessary funds in your house, will you not pay him?—I hope so.

3125. Can you not pay him just as well by drawing a check upon the Bank of England as by taking bank notes out of your drawer?—Yes, it being assumed in the question that I have the money at my credit in the Bank of England.

3126. Has not then the deposit in this case performed the same functions as notes in your drawer would have done?—In that case I have paid a debt by drawing upon my deposit account in the Bank of England, instead of doing so by paying it with notes out of my own till.

3127. Your original balance at the Bank of England having been 100,000*l.*, will not this balance, after the payment of 20,000*l.* for those bills, be reduced to 80,000*l.*?—It is quite clear that it will.

3128. Is there any part of the remaining sum of 80,000*l.* that is not qualified to perform exactly the same functions, and to make the same payments as the 20,000*l.* which have discharged the debt to your customer?—The

same process may, undoubtedly, be repeated till the balance standing at my credit in the Bank is exhausted.

3129. Has not that 100,000*l.*, deposited in the Bank of England, performed all the functions which 100,000*l.* in your own possession would have done?—It has performed one of those functions which a note in my possession would have done; but it certainly has not performed all the functions that a note in my possession might have performed.

3130. What function more has been required than that of discharging the obligation of paying those bills?—My deposit at the Bank has been the means of enabling me to discharge the function required, undoubtedly; but it does not follow from that that it has enabled me to discharge all the functions which the notes in my hand might have enabled me to discharge, if I had required them for other purposes.

3131. The notes being of the value of 20,000*l.* could you have paid more than 20,000*l.* with those notes; and have you not paid the 20,000*l.* by this operation upon the Bank of England; and have not the deposits in that case performed the same functions as the notes would have done, if delivered by your own hands?—I can only say that, in the case put, a debt owing by me of 20,000*l.* has been discharged, so far as I am concerned, by a draft upon my account at the Bank of England, instead of being discharged by payment of notes out of my own drawer.

3132. Is not that, as regards the circulation, the function which you have stated in your definition money

ought to bear, namely, the discharge of obligations? In answer to question 2663, you state "Money is marked by certain distinguishing characteristics; first of all, that the amount of it is determined by the laws which apportion the precious metals to the different countries of the world; secondly, that it is in every country the common measure of the value of all other commodities, it is the standard by reference to which the value of every other commodity is ascertained, and every contract fulfilled; and thirdly, it becomes the common medium of exchange for the adjustment of transactions equally at all times, between all persons, and in all places; it has further the quality of discharging those functions in endless succession." Is not in this case the 20,000*l.* deposited in the Bank of England the measure of the value of other commodities; is it not the standard by reference to which the value of other commodities is ascertained; and thirdly, has it not been the means of discharging the obligations as regards this 20,000*l.*, as much as if sovereigns had been used?—To the two first parts of that question, I answer no, and to the latter part of that question, I answer yes; but really, I hope the Committee will allow me again to say, that I cannot conceive what good is to arise from reducing these questions to this form. The question clearly is, what is the nature, and what are the effects of deposits, with reference to the money or the circulating medium of the country? I have already explained to the Committee the view which I take of it; and I do not press that view upon them pertinaciously; I only state that view and give my reasons; my own view of that

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question is, as I have already stated, that deposit is a form of banking business, that, in other words, it is a process for economizing the use of the circulating medium of the country. In the case now put by Mr. Hume, a less amount of the circulating medium of the country has been sufficient to perform certain functions, in consequence of that economic process of using the money which arises out of banking deposits. The same thing exists to an enormous extent in the system of the clearing house; but will any man in his common senses pretend to say, that the total amount of transactions adjusted in the clearing house are part of the money or circulating medium of the country? They answer all the functions stated in the questions of Mr. Hume, with respect to deposits. So book-debts and transfers in account, throughout the whole community, will answer the same purpose. Again, take the case of barter,—all those are modes of economizing the use of the circulation or money of the country; but really to split up an important and complicated proposition into all its parts, and to separate each part from its bearing upon the other, and by that process to attempt to make out that every means by which you economize the use of a thing, is in reality that thing itself, seems to me a logical process the fallacy of which is so obvious, when once stated, that the Committee must immediately perceive it, and, therefore, it seems to me that you bring the discussion at once to its final point. If the distinction which I clearly draw is not recognized by any other mind, then that mind and my mind are so differently constituted, that we are incapable of reasoning

upon any common datum, and therefore cannot hope to come to any mutual understanding.

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24th JULY, 1840.

3147. Mr. *Hume*.] It has been stated by one of the witnesses, that all deposits possess the quality of money in a low degree; do you agree in that opinion?—I would rather state my own opinions in my own words; I really do not know what may be meant by possessing the qualities of money in a low degree.

3148. Do you consider any portion of the deposits in the Bank of England as money?—I do not.

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3151. Suppose a tradesman residing at Charing-cross owes 1,000*l.* to another tradesman residing in Thames-street, and that the latter, on application for his money, is paid by means of notes which the debtor has on his premises, is not this a payment by means of notes in circulation?—Yes, it is.

3152. Suppose the creditor, after he has received those notes, locks them up in a drawer in his own house, would those notes be still in circulation?—Yes.

3153. Will not then the debt be discharged by the transfer of certain notes from the power and custody of the debtor at Charing-cross into the power and custody of the creditor in Thames-street?—Of course the answer to that question is perfectly obvious; but really I am not

competent to answer it more than any other person, and I really do conceive that, when a witness is brought here, he is brought for the purpose of giving the Committee information, or communicating to them views, in some respects differing from those which the whole world at large possess.

3154. Suppose the person living in Thames-street, having an account in the Bank of England, should pay those notes into the Bank; will not those notes which were returned before as circulation, be returned by the Bank as deposits?—The *notes* will not be returned as deposits; but the effect of that transaction will be, that the person residing in Thames-street will have a credit in the books of the Bank of England, and those notes will either remain in the till of the Bank of England, or they will be disposed of by the Bank of England in some other way.

3155. Will not, however, the sum thus paid in be returned by the Bank as deposits?—The credit obtained by the supposed person will appear in the accounts of the Bank of England as part of the deposits owing by the Bank; but again I must observe, that these are facts of which I have no knowledge beyond what any member of the Committee has, and I do not know what the object is of examining me upon things respecting which I have neither knowledge nor information to communicate beyond that which every body possesses.

3156. Have you not stated that deposits are not part of the circulation?—I have stated that in my judgment there is a great distinction between deposits and money.

8157. You consider questions should not be put to you upon points which other people know ; have you not stated in answer to many of the questions put, many facts which are known generally to other people?—I have certainly had many questions put to me, and I have given many answers, neither of which, I think, are fairly warranted by the purposes and objects of a Parliamentary Committee; and I have done so, because I have been extremely unwilling to make the observation which I have recently made, until I found that not only in my own judgment, but in that of a great number of other persons, the system of examination had been carried to an extent which really was improper, and calculated to be prejudicial to the public interests, in the end.

8158. You have stated in your evidence that deposits have not the characteristics of money, and I am about, therefore, to test your opinion by the commercial transactions of London ; I therefore ask you, does it make the least difference to the tradesman at Charing-cross, or the tradesman in Thames-street, to whom I have alluded, whether the 1,000*l.* which passed between them is entered in the books of the Bank of England as circulation or deposit?—I really do not clearly understand the purport of the question. If the person in Thames-street deposits the 1,000*l.* in the Bank of England, the effect is that that person obtains a credit in the books of the Bank to that amount ; what becomes of the money he has so deposited, is a separate question, and will depend upon circumstances, which do not appear to me to be before us.

8159. In the previous question, the bank notes, paid

by the tradesman at Charing-cross, are supposed to have been paid to the tradesman in Thames-street, and by him to have been deposited in the Bank of England; in the first case, they stood in the returns of the Bank of England as circulation; and in the latter, after having been deposited in the Bank of England, the same notes stood as deposit. I wish to know whether, in either case, there is any difference to either of the individuals in the value of those notes, under whatever denomination they may be?—I do not admit that the notes stand in the Bank of England as deposit; I have already stated, what appears to me a distinction, viz. that by paying in the notes to the Bank of England, the party so paying them obtains a credit in the books of the Bank of England, and that the notes still exist in some form or other, or do not exist, according to circumstances, not stated in the question. In reply to the former part of the question, I certainly conceive that the notes, while they were in the hands of the tradesman in Thames-street, did give him that which the credit in the Bank books does not give him.

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3173. Is it your opinion that it is the circulation alone that affects the prices of commodities and the rate of interest, and that the deposits have no influence whatever upon them?—It is not my opinion that the circulation is the only thing that affects the prices of commodities, or the rate of interest.

3174. What else affects the prices of commodities?—The causes affecting the prices of commodities are so

various, that I should really be quite incompetent to enumerate them; it must be obvious to the Committee that circulation is not the only circumstance affecting the prices of commodities.

3175. *Chairman.*] Do the fluctuations in prices correspond to the fluctuations in the deposits of the Bank of England?—Certainly, in my opinion, the fluctuations in prices do not correspond to the fluctuations in the deposits of the Bank of England; at the same time I should be glad to state this in explanation. If a state of things be supposed, in which no deposit business existed, and there is a certain state of prices under that condition of things; if you then suppose the sudden introduction into the country of the deposit system to the extent to which it now exists in this country; the effect of that great change will be a greater economized use of the precious metals, and consequently a new distribution of the precious metals throughout the world. After that has taken place, and prices have adjusted themselves to that new condition of things, then I conceive that fluctuations in the amount of the deposits will not necessarily produce corresponding fluctuations in the prices of articles.

3176. *Mr. Hume.*] In the answer to question 2667, you state that by the quantity of money you mean the quantity of metallic coin and paper notes, promising to pay in coin on demand which are in circulation in the country; and in answer to question 2663, you state that circulation is in every country the common measure of the value of all other commodities; how do you reconcile those answers with the last answer but two which you

have given?—I really do not see what the inconsistency is in those answers which I am called upon to reconcile ; and of course not seeing the inconsistency, I am unable to discharge the duty which I am called upon to discharge, of reconciling them. There seems to be a confusion in the mind of the gentleman questioning me, between the standard or measure of value, and all the circumstances which determine the fluctuations of prices. I have stated that the precious metals circulating, either in kind or by their strict representative, paper notes, to the same amount, are taken by the common sense of mankind as the best standard which they can obtain of value, and that the relative prices of all things to each other are ascertained by reference to that standard. That doctrine does not seem to me inconsistent with the former statement, that a variety of causes, besides that standard, may cause variations in the prices of articles. In a philosophical reasoning upon the subject, it is of course necessary to assume, in the first instance, that the standard itself is invariable in value ; but, undoubtedly, such is the imperfection of all human arrangements, that we are unable to obtain an invariable standard, and the standard itself is therefore liable to changes. Consequently we have to deal with the complicated phenomena of fluctuations in prices of all articles arising from an endless variety of causes ; those fluctuations of prices being measured by a standard which is itself, strictly speaking, not fixed, and invariable in its value. To follow out all the consequences which flow from so complicated and difficult a state of things, and to trace them

carefully and accurately under an examination, such as that to which I am now unfortunately subjected, is perhaps a task which no human mind would be capable of performing without occasional omissions, without the occasional use of inaccurate expressions, without affording occasional opportunities for an adverse reasoner to find some little accidental fault, arising from the acknowledged imperfection of all human abilities, of which it may be in his power to make a use which few persons would envy. I would, however, explain my statement by further illustration; we measure the height of all things by a standard, the standard yard, for instance; but notwithstanding it is true to say that the height of all things is measured by the standard yard, yet I apprehend that it would be an extremely strange mental process to arrive at the conclusion, that nothing affects the height of things but the standard yard; that seems to me to be the fallacy involved in this question. Whether I am correct in that conception or not I will not be confident; because I feel and acknowledge that the unpleasant, and to me painful, manner in which this examination has in its later stages been conducted, has gone far to produce a state of feeling on my part, which tends to disqualify me for following out intricate reasonings upon an abstruse and difficult subject. The mode of cross-examination which is resorted to, renders the careful selection of well-considered and unambiguous terms absolutely necessary for my self-protection; and I am thus called upon to do, without preparation, that which the ablest minds, with ample opportunity for

reflection, and subsequent correction, have found to be no easy task.

3177. Is there any fallacy in the statement, that in the accounts published by the Bank, their liabilities are divided under two heads, circulation and deposit?—I am not prepared to state that there is any fallacy in it.

3178. Have you not said that deposits do not in any way whatever possess the qualities of money?—If I have said so, I shall be glad to have the statement laid before me.

3179. Have you not, in question 2663, enumerated certain distinguishing characteristics of money?—I have.

3180. Have you not, in the same question, stated that deposits do not, in any way whatever, possess those characteristics?—Yes, I have.

3181. Have you not, in answer to previous questions, admitted, that, for the discharge of debts, deposits have the characteristics of money?—All that I have admitted is, I believe, that a deposit may, under certain supposed circumstances, be used to discharge a certain supposed debt.

3182. Are there any circumstances you can suppose which would prevent a deposit in the Bank of England, belonging to you, as a banker, being applied to discharge, if you think proper to give an order on the Bank, any debt to the amount you may have in deposit?—Yes, there are.

3183. Will you state what they are?—The party refusing to take that order.

3184. Is there anything then to prevent your going

to the Bank, and receiving bank notes or sovereigns for that amount, and then paying the notes or sovereigns over to that person who you suppose may refuse the cheque?—No.

3185. Then have not the deposits in that case all the characteristics of money which the notes have?—No, they have not.

3186. Have they not discharged the debt that you owed?—No; the notes have, but not the deposit.

3187. Did you not obtain notes to the amount of the deposit you had in the Bank?—I obtained a discharge of my credit in bank notes.

3188. That credit being synonymous with deposit?—That credit being synonymous with deposit, in that case.

3189. Did not that credit discharge the debt equally with the notes?—No, the notes discharged the debt, and not the credit.

3190. Did you not obtain the notes by means of the credit?—I did.

3191. Was there anything to prevent your obtaining it on demand?—That depends entirely upon the supposition; if you choose to suppose that there was any impediment, that supposition is a perfectly fair one: if you suppose that there was no impediment, that supposition also is a perfectly fair one.

3192. Is it your opinion that deposits do not possess the power of universal exchangeability which belongs to the money of the country?—It is my opinion that deposits do not possess that property of universal exchangeability in endless succession which money does possess.

3193. Will you state by what criterion, in your opinion, we are to judge of the quantity of paper money in the country; is it by the returns made by the Bank of England, under the head of circulation, and of the country bank notes, by their official returns?—I conceive that the paper money of the country consists of the notes of the Bank of England, and the notes of what are commonly called country issuers of this country. If we are to include the United Kingdom, there are the notes of similar issuers in Scotland and Ireland to be added.

3194. You have given a statement of the conjoint paper circulation on that principle?—Yes; not including Scotland and Ireland, because I had no means of forming an estimate of that.

3195. Is it your opinion that country circulation has the same effect on prices, and on the rate of interest, as the circulation of the Bank of England has, *pro tanto*?—Of course; when we are discussing a subject scientifically, many assumptions must be made, which when we come to analyze it very closely, require certain qualifications. I conceive the notes of the country issuers approach very nearly in their character to the notes of the Bank of England; but that there are certain circumstances attending them, in consequence of which the degree to which they possess universal exchangeability in endless succession is not so complete as that to which it is possessed by the notes of the Bank of England.

3196. Is it your opinion that the Bank of England should increase or diminish its circulation, according to the increase or decrease of the influx of bullion,

without regard to the amount of deposits?—Certainly.

3197. Is it your opinion that the circulation of the joint-stock banks and the country banks should be governed by the circulation of the Bank of England?—Speaking of that which is abstractedly right, I should say, that the aggregate paper circulation of the country ought to fluctuate in amount with the bullion in the Bank of England. The question is, under existing circumstances, by what process we can make the nearest practical approach to that state of things; the rule of expecting the country issuers to regulate their issues, with reference either to the influx or efflux of bullion, or to the action of the Bank of England, has been supposed to be the nearest approximation we can make; but it certainly is far from being a perfect one.

3198. Is it your opinion that the country issuers have materially transgressed this rule, and that the Bank of England has reason to complain of their conduct in this respect?—I should rather avoid using the expression that the Bank of England has a right to complain of the country issuers. I certainly think that a deviation from a proper state of the aggregate paper circulation of the country has frequently occurred, sometimes from the want of proper action on the part of the Bank of England, sometimes from the want of proper action on the part of the country issuers, and very frequently from the want of proper action on the part of both simultaneously.

3199. When the Bank of England purchase secu-

rities, do they not issue notes or bullion against those securities, and do they not thereby increase the quantity of currency?—That may be the case, and generally is the case; I do not know that it is absolutely necessary that that should be the case.

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3220. Seeing that the placing of money in deposit in the Bank, or keeping it, does not depend upon the Bank, but on the parties having the money, how can the Bank, at their option, increase or decrease their circulation, when they have no power over the person who has received the money?—If I understand the question rightly (but I am always obliged to preface my answers with a doubt upon that point), I think the answer is this: we have lately assumed the case of the Bank of England issuing 1,000,000*l.* of notes on the purchase of securities, and a consequent increase of deposits with the Bank arising from that transaction. I am now asked, how the Bank has the power of controlling its issues; I should say it has the power of controlling its issues by selling the securities it has so purchased; the effect of which would be, that the increase of deposit, produced by the purchase of securities, will be contracted again in consequence of the sale of securities. But really to understand the subject completely, it would be necessary to open a wide discussion; we have before us an extensive field; a subject consisting of a great variety of complicated considerations, all intertwined and dovetailed into one another; and it really seems to me impossible to come to anything like a manly and philosophical view of the

subject by fixing our attention on one particular and isolated point, discussing the peculiar character and effects of that particular point, and by this process throwing out all the other considerations of the subject which are necessarily bearing upon it in various ways and forms.

3221. I wish to confine myself to a single transaction : suppose the Bank to have 18,000,000*l.* in circulation and 10,000,000*l.* in deposit, making the aggregate of liabilities 28,000,000*l.*; that she also has 26,000,000*l.* of securities; she purchases 1,000,000*l.* of securities, making then the aggregate of securities 27,000,000*l.*; for that 1,000,000*l.* of securities she has issued 1,000,000*l.* of notes; the person who has received the 1,000,000*l.* of notes pays them into the Bank of England as a deposit; will not the amount of deposits in that case be increased to 11,000,000*l.*, and no alteration appear in the circulation?—Yes.

3222. Have you not stated that when the Bank wishes to increase the quantity of currency, they will purchase securities?—I certainly think that to purchase securities and issue money against that purchase, is the mode by which the Bank should increase the circulation.

3223. In the case supposed, has not the Bank purchased 1,000,000*l.* of securities, without increasing the circulation?—The Bank, as an issuing body, has issued an additional 1,000,000*l.* of notes upon securities, but that additional million does not appear in the returns of the circulation, because it has been paid in to the Bank as a deposit; under the present system of keeping the accounts, that sum so paid in does not appear as circulation.

3224. May not the Bank, therefore, under the

present system, purchase securities to any amount without increasing the circulation, provided they are all paid in in deposits?—If all the notes issued by the Bank are afterwards paid in as deposits, and not again re-issued, of course there will appear to be no circulation.

3225. Is it not part of your plan, that the efflux of money should be prevented by decreasing the currency?—I certainly am of opinion that the mode of stopping the efflux of gold from the country, is by diminishing the amount of money in the country.

3226. Is it not your opinion that the Bank should sell securities, to effect that decrease of currency?—No; I think that the proper course is, for the Bank to cancel their notes as they are paid in for gold.

3227. Must not the Bank either sell gold or securities in order to decrease the currency?—The mode by which the Bank should decrease the currency, is by cancelling a sufficient portion of notes, whatever be the means by which she gets them into her possession.

3228. Is it your opinion that by a decrease of the deposit, the Bank can decrease the circulation?—The increase or decrease of deposits is not under the power of the Bank of England; it is under the power of those who make the deposits.

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3231. When the deposits amount to 12 or 15 or 19 millions, or whatever may be the amount, may not depositors withdraw two or three, or four or five millions,

as we have seen by the returns, and invest them in securities, supposing the Bank of England to be selling them at the same time; and may not all that take place without the circulation, as explained by you, being in the least altered?—There is no doubt about it, that transactions may take place in the deposit business of the Bank of England, as they may in the deposit business of every other person holding deposits; the effect of which will be, that a withdrawal of deposits may take place, and a sale of securities be effected by a depositor to enable him to pay that withdrawal, and all that may take place without an alteration in the amount of the circulation.

3232. Is it not, therefore, from these two instances, proved, that the Bank of England has no power to increase or decrease its circulation, and that that rests alone with the depositors who have money in their coffers?—I think it does not follow from that, and that not the slightest evidence to that effect has been adduced.

3233. Have we not the proof, in these two cases, that the Bank of England may increase or decrease its securities without in the least affecting the amount of circulation?—It is perfectly true that the Bank of England, being a banking body as well as a bank of issue, may increase its securities or decrease its securities in consequence, of, or contemporaneously with, a corresponding action on its deposits, without the circulation being thereby altered.

3234. Have you not stated that the Bank have the power of increasing or decreasing the currency by the

purchase or sale of securities; and have you not now two instances before you, in which that might not take place? —I really do not see the contrariety or contradiction involved in those facts. I believe that the Bank of England has the power of altering the amount of its circulation by the purchase or sale of securities; but it does not appear to me to follow from that, that every purchase or sale of securities by the Bank of England will therefore alter the circulation. Those two propositions appear to me to be exceedingly different, and the distinction is still more marked, in consequence of the Bank of England being a banking establishment as well as a bank of issue.

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3237. You have said that when the Bank sells securities and calls in notes, this will reduce the quantity of money.—Yes.

3238. May not the amount of notes called in be taken either from the deposits or from the circulation?—To answer that question satisfactorily, it is necessary to consider the nature of banking business. The deposits are obligations to pay on the part of the Bank, against which she holds a certain amount of bank notes or coin, and also a certain amount of securities. The deposits, no doubt, to the whole extent to which they exist, may be drawn from the Bank; and if so drawn, it will rest in her discretion what portion she will pay with the bank notes or gold held in her till, or to what extent it will be necessary to realize the securities which she holds to meet her deposits, for the purpose of keeping her banking concerns in due order and proportion.

3239. My question alludes solely to this simple fact; that as the whole of the notes required to purchase the securities sold by the Bank may be taken from deposits and not from circulation, how can the sale of securities by the Bank affect the circulation?—I can only, in answer to that question, go through the explanations I have gone through several times already; namely, that if deposits are drawn from the Bank to a certain amount, and she deems it necessary to sell securities to that extent to discharge those deposits, that sale of securities, of course, will not produce an effect upon the circulation; but if, beyond that, it is incumbent upon her to contract her circulation, she must make a sale of securities for that purpose; and if the supposition really goes to the extent of assuming, that by this process of sale, all the deposits will be drawn out, rather than any reduction be effected in the circulation, then we come to the simple state of things, that the Bank must sell all the securities which she holds against deposits. Then that power, arising out of deposits, will be exhausted, and then you will come to the period when a sale of securities by the Bank can produce no other result, and must necessarily produce the desired result, a contraction of the circulation.

3240. But is not the power of depositors, of acting on the money-market in the purchase of securities, thereby *pro tanto* diminished, according to the amount they withdraw?—Now, it becomes necessary to draw a distinction, and it shows upon what refined distinctions all these discussions are turning, between a depositor and a holder of bank notes: by the process supposed, those who were

previously depositors, have lost that character, and have become holders of bank notes. Their power as depositors has gone, and their power as holders of bank notes has taken its place.

3241. Have you not said, that when bullion is imported and sold to the Bank of England, and paid for in Bank of England notes, the quantity of money is increased?—I do not know whether I have said so, but I certainly consider it to be so.

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[Mr. Loyd was further examined on a subsequent day; but his examination turned only on the alleged or real influence of the West India loan of 1833, and of the conduct of the Bank of England. It did not involve any matter of principle, and is curious only as showing how often the same questions may be varied, and proposed in new forms.]

EXTRACTS
FROM
THE EVIDENCE
OF
SAMUEL JONES LOYD, ESQ.,
BEFORE THE
SECRET COMMITTEE OF THE HOUSE OF LORDS,
ON
COMMERCIAL DISTRESS
IN 1848.

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SAMUEL JONES LOYD, Esq., called in, and Examined.
28th February, 1848.

* * * * *

1349. Will you be so good as to state in what degree, in your opinion, the commercial crisis which took place in the month of April last year (1847), and the further disturbance of credit which took place in the autumn of last year, were connected with the conduct of the Bank and the state of the circulation of bank paper?—I do not consider that the pressure which took place in April last, or the subsequent pressure in October, was in any degree connected with the management of the circulation. I consider that pressure to have been entirely of a mercantile character. The amount of bank notes in the hands of the public during that period was unusually large, and I apprehend that the same degree of pressure must have taken place under a metallic circulation, or under any other system of circulation in which adequate provision was made for securing the convertibility of the notes.

1350. Will you be so good as to state what, in your opinion, were the causes in which that pressure originated, distinguishing those causes which were in operation in the early part of the year, and those which may have been in operation in the subsequent part of the year?—

That pressure, I conceive, was caused by a deficiency of capital to sustain the mercantile engagements that were in existence. That deficiency of capital arose from the failure of the harvests both in this country and throughout Europe, and also from the extraordinary diversion of capital from trading purposes to the construction of railways. The pressure was further intensified in the autumn by the extraordinary extent of commercial failures which occurred at that time, and the general alarm to which those failures gave rise.

1351. Will you state, that pressure existing, what effect, in your opinion, the Act of 1844, commonly called Sir Robert Peel's Act, had either in alleviating or in aggravating that pressure?—For the reasons already stated I apprehend it had no effect whatever in aggravating the pressure. I conceive that the Act of 1844 protected the public from the additional evil which would otherwise have occurred of a failure in maintaining the convertibility of the notes, and the consequent complete destruction of our monetary system.

1352. You are of opinion then that the pressure would have occurred, and have been as severely felt, had no such Act been in existence?—I am of that opinion, certainly. I see no ground whatever for saying that the Act in the slightest degree tended to create or to increase the pressure.

1353. Do you think that the conduct of the Bank was different under the Act from what it would have been if no such Act had been passed?—The course pursued by the Bank from January to April 1847, which

I apprehend to have been extremely erroneous and detrimental to the public interest, was stopped only by the positive provisions of the Act; and if that system of procedure had not been so stopped it must have ended in the most disastrous consequences.

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1355. What was the conduct of the Bank from January to April which you consider to have had this unfavourable tendency?—A constant increase of its advances on securities, and a constant decrease of its banking reserve, in the face of a continuous drain of bullion.

1356. You mean of private securities?—I mean an increase of the total securities. The increase was principally of the private securities.

1357. Was there not at the same time a considerable reduction of public securities?—No; the public securities on the 2nd of January were 12,800,000*l.*, and on the 10th of April 13,500,000*l.*

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1363. What do you call the amount of bullion in the Bank in the months of January, February, March, and the beginning of April; was it not invariably rather above ten millions?—The bullion was above ten millions, but it was steadily diminishing. It was subject, during those three months, to one of the severest drains that the bullion has ever sustained.

1364. Then according to your theory, the fact of the Bank having a drain upon its bullion, though that drain did not bring its bullion below 10,000,000*l.* should have

been a reason for the Bank refusing the augmentation of its private securities, or in other words refusing the accommodation required by the trade of the country, its public securities having in the meantime rather diminished than augmented?—My principle is, that during a heavy drain upon the bullion, the Bank ought not to increase its advances upon securities in such a manner as to run down its banking reserve to an unsafe amount.

1365. Are you aware that in the April quarter of 1847, to which you have referred as showing an increase in the securities on the part of the Bank, the amount required on deficiency bills at that time was 3,400,000*l.*? —I have no means of knowing the amount of deficiency bills.

1366. There is a return before the Committee which shows that in April 1847 the amount of deficiency bills was 3,400,000*l.*; subtracting the deficiency bills then, was there not a considerable diminution in the other public securities?—It seems to me that the introducing into the question a distinction of the different forms of securities only tends to confuse our view with respect to the really important principle. The total amount of notes placed at the command of the Bank of England in its banking department, depends entirely upon the amount of bullion in deposit. Then as the bullion diminished, the total amount of notes placed at the disposal of the Bank of course diminished to an equal extent; the diminution must take place either by a reduction of the notes in the hands of the public or of the notes in the banking till. From January to April 1847 that reduction fell

entirely upon the notes in the banking till, and it was permitted by the Bank to go to an extent which reduced the banking reserve to a very unsafe point. That process, in the face of a heavy and continued drain of bullion, was in my judgment an improper and unsafe one.

1367. Assuming that there was that increase which appears upon the face of the returns in the deficiency bills in the April quarter, then, in order to accomplish the object which you contemplate as necessary for the safe and good action of the Bank, there ought to have been a proportionate reduction in the other securities which they had?—I really am a little cautious of answering questions which depend upon the amount of deficiency bills. I do not profess thoroughly to understand their operation; I look only to the total amount of the Government and the private securities—the total aggregate of the two. I find that the aggregate amount of advances upon securities was largely increased during a heavy drain of bullion, and that it was effected exclusively by a diminution in the banking reserve of the Bank. That is a process which would bring any other bank into serious danger, and I think it did bring the Bank of England into a dangerous position.

1368. Assuming those securities to consist of three elements, namely, public securities, securities other than public, and the securities held by the Bank, which are issued at the commencement of the quarter for the payment of the dividends,—in other words, the deficiency bills,—if there was an excess, as there appears to have been in that quarter, of a considerable amount of defi-

ciency bills, could a limitation of the banking operations have been effected, except by a reduction upon the other branches of the securities proportionate to the increase which was cast upon them by the demands of the Government?—I feel some difficulty in answering the question, from being doubtful whether I perfectly understand it. It appears by the published accounts now before me that in the month of April, during which we are assuming an advance upon deficiency bills, there was always Government money in the hands of the Bank of England; the Government deposits in the hands of the Bank of England at the beginning of April were 6,000,000*l.*, and at the end of April they were only reduced to 2,600,000*l.*; therefore it appears to me that the Bank was only called upon to pay to the Government a proportion, not the whole, of the Government deposits,—a process perfectly correct according to every principle of banking.

1369. What was the state of the foreign exchanges in the period to which you alluded,—between January and April?—I presume, of course, the foreign exchanges must have been against the country. There were five millions of gold lost during that period.

1370. Five millions of gold were drawn out from the Bank for the purpose of being sent abroad?—I think it is almost impossible to distinguish accurately the various purposes for which gold is drawn out of the Bank; but I apprehend that there can be no doubt that at that period there was one of the severest foreign drains upon the gold of the Bank to which it was ever subjected.

1371. You say that it is not possible to distinguish for what purposes gold is drawn out; do not you think it is one of the most important duties of the Bank Directors to ascertain for what purpose the gold is drawn out, and thereby to form a judgment to what extent the drain is likely to go?—I believe that the attempt on the part of the Bank to anticipate the probable extent of a drain of bullion, and to regulate its measures accordingly, has usually led to mischievous consequences. The only safe rule is to look to the amount of bullion that is deposited in the issue department, and to make the amount of notes vary according to the variations in the amount of the bullion so deposited.

1372. Will you explain the sense in which you used the word "Bullion," when you say that five millions of bullion were sent out of the country between January and April?—I speak of that which in the published returns is given as the total amount of bullion.

1373. You speak of the bullion in both departments of the Bank?—The bullion in issue department against which notes are issued. The bullion in the banking department is really an item of very little consequence; it never varies to any great amount.

1374. At the same time that the exchanges were unfavourable, and there was a great demand of bullion for export was there a considerable internal drain for the supply of country banks or any persons holding notes in the country?—I do not apprehend that there was in the spring of the year.

1375. You think that all that the Bank Directors have to do is to look to the amount of their liabilities and of

their reserve, and that whether their reserve is diminished by a foreign drain or by an internal drain it equally behoves them to adopt the same measures?—I consider that in carrying on its banking business according to the proper principles of banking, the Bank of England has only to consider the amount of its outstanding liabilities on the one hand, and what notes it has in its reserve on the other hand.

1376. You consider that in its banking department the Bank should conduct its banking business in the same way whether the drain is for foreign or for internal purposes? — I apprehend that the banking department should not look to the causes of a drain of bullion, but simply look to the state of the banking reserve.

1377. Applying the question exclusively to the banking department, do not you think that the Bank are bound to consider the state of the foreign exchanges, and that they have the means of doing so?—I apprehend that in the management of its banking department, the Bank in the first instance is to look to its ordinary banking condition, namely, to the amount of its liabilities and its means of meeting them, its means of meeting them being its securities and bank notes in its banking till. Beyond that the Bank of England may, without any impropriety, like every other person, look to those more distant and uncertain considerations which may in their judgment ultimately be likely to affect the condition of the concern.

1378. Amongst those do not you think that the state of the foreign exchanges is one?—Yes.

1379. It being one of those matters which they are

bound as prudent and intelligent bankers to consider, do not you think that they have the means of ascertaining whether the foreign exchanges are for or against them?—They have the means of ascertaining generally whether the foreign exchanges are favourable or unfavourable; but I doubt the power of ascertaining accurately whether all or what proportion of the gold lost by the issue department is parted with in consequence of adverse foreign exchanges.

1380. In what respect is there any peculiar difficulty in ascertaining whether the export of bar gold from this country to the continent would be profitable or unprofitable? How does the export of a given value of bar gold differ from that of cotton or any other commodity?—I do not know that it does differ in any respect in principle, but the fact is, that gold is both coming into and going out of this country at all times, and through various means; and after all a drain is only a question of the balance between the income and the outgoing gold.

1381. In your examination before a Committee of the House of Commons in April 1840, this question was put to you: “Do you believe that intelligent merchants and bankers have regard to the exchanges for the regulation of their own mercantile or other operations?” And your answer is, “I think that they have, perhaps not to the full extent to which it would be desirable, but to a much greater extent than they used to have regard to that consideration.” If they have a regard to the state of the foreign exchanges to a greater extent than they had previously, although there may be even during the time of adverse exchanges some small portions of gold imported

into the country, can the Bank have any difficulty in ascertaining what the general tendency is, and whether the balance is in favour of the export or of the import of gold?—No doubt under ordinary circumstances the Bank may form a pretty safe judgment, whether the gold taken from it is going abroad or whether it is taken for internal purposes; and certainly parties largely engaged in mercantile or in money operations, now look a great deal more to what they think the actual state, or the probable future state of the foreign exchanges than they used to do. Their judgment is founded not upon a positive and certain knowledge of what proportion of the gold going out of the Bank is so drawn out by the foreign exchanges, and what proportion by the internal demand, but upon the general consideration that there is ground to apprehend a drain of gold.

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1386. Was there not at that time (October 1847) an influx of gold into this country, and if there was, does not that negative the possibility of there being any profitable export of gold?—No; it does not negative that necessarily. It is perfectly possible that there may be an influx of gold from the continent of Europe, and an efflux to the United States. If I recollect right, some years ago that process was actually going on.

1387. If the efflux to the United States was not so large as the influx from the continent there would be a balance?—There would be a balance no doubt.

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1389. What is your complaint against the manage-

ment of the Bank?—My complaint is, that in the beginning of 1847, the Bank held a total amount of securities of 27,900,000*l.*, and it held eight millions of bank notes in its banking till; that in the middle of April it had reduced its banking reserve to 2,500,000*l.*, which was an unsafe and improper point to which to reduce it, and that that reduction of its banking reserve had been caused by a large increase of its advances upon securities, made during a heavy drain of bullion.

1390. You admit, of course, that a reduction of the Bank's advances upon private securities is, in other words, a reduction in the accommodation to the trade of the country?—It is a reduction in all probability of its advances upon discount of bills of exchange.

1391. Are you not sensible that a reduction of the accommodation to the public, in the shape of discount or otherwise, is always attended with considerable pressure and injury to the trade of the country?—A reduction of discounts is undoubtedly accompanied with inconvenience, I should hesitate to admit the word "injury."

1392. Are not "inconvenience" and "injury" rather synonymous?—No; because I apprehend that pressure on many occasions although inconvenient, is extremely salutary and beneficial.

1393. But it presses severely upon individuals concerned in trade?—It creates inconvenience at the time to them.

1394. Are you also of opinion that fluctuations between abundant accommodation on the part of the Bank at one time, and very restricted accommodation

on the part of the Bank at another time, are very injurious to trade, and much to be avoided?—There is no doubt about it, that violent fluctuations in matters of that sort are inconvenient and injurious, and it would be desirable that they should be avoided, but we must look to the causes from which they proceed. Any attempt to obviate such fluctuations, without really remedying the causes which produce them, would only increase the mischief and not diminish it. When, for example, from any cause whatever, there occurs a great diminution of the capital which had been previously calculated upon for carrying on the trade of the country, the inconvenient consequences which arise from that, viz., contraction of discounts and rise in the rate of interest, are absolutely unavoidable, and any effort to suppress those consequences by artificial contrivances will in the end produce more pressure and more inconvenience than would have arisen from leaving them to take their natural course.

1395. But you do not doubt that it is desirable for the well-being of the circulation and trade of the country, to keep as nearly equal as possible the accommodation given by the Bank to the public?—It is certainly desirable that circumstances should so combine, that the trading world should not be subject to any strong or violent changes, but if the causes which naturally and necessarily produce changes are actually in operation, it is not desirable by any artificial means to endeavour to prevent those violent results.

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1397. Returning to the export of bullion,—the Bank having at one time fourteen or fifteen millions of bullion, and then having it reduced by four or five, or six millions, do not you think it would have been desirable that the Bank should, if it could be done consistently with its safety, produce as little pressure and distress upon the commercial circulation as possible?—Certainly.

1398. Looking to the efflux of gold coin and bullion, it appears that through the whole of last year, there was not an ounce exported either to Holland, to Belgium, or to France, and that in short, gold was exported to very few, if any, of the ports of the continent of Europe, with the exception of Portugal, and that three-fourths of the whole export, namely, 838,000 ounces out of a million of ounces, were entirely to the United States of America. Would not that be conclusive with you, that there could not have been any state of foreign exchanges to drain gold from this country to the continent, and that the only demand which was of any consequence as threatening the reserve of the Bank, was the demand for the United States of America?—I have not seen the paper alluded to, and I know nothing as to the accuracy of the facts stated; but if I understand the question, it merely amounts to this, that giving me the fact that the whole export of gold was to the United States, it was for the United States only that there was a demand for gold. But I know that the intercommunications between the different nations of the world, and the modes of transferring their debts from one nation to another, through exchange operations, are so varied and complicated, that I should hesitate in coming

to the conclusion, that because the gold went only to one country, therefore, it was with one country only that we had really an adverse balance of trade.

1399. If it went to no other country than the United States, which are quite distinct in their geographical position and their connexion from the countries of the continent, does not that pretty clearly indicate that it was an extraordinary local demand for some particular purpose, and not an indication of a generally unfavourable state of the exchanges of this country?—I apprehend that there can be no doubt that during last year, the main cause of the unfavourable state of the exchanges, was the import of provisions; that that import took place very largely from the United States; and that, therefore, it was largely to the United States that we had to make the payment in return.

1400. Supposing the Bank directors to have had at starting rather a superabundant quantity of coin and bullion, running to fifteen or sixteen millions, before the famine or the great demand for food came, and the general state of the exchanges with the continent of Europe not to have indicated danger, would it not have been reasonable in them to have formed some estimate of what might be the probable extent of the demand from America for this extraordinary purpose, and might not they therefore, have seen the departure of five or six millions of gold, without conceiving it to be their duty to put any great pressure upon the commerce of the country by restricting their accommodation, supposing they had been acting not under the Act of 1844, with the issue separated

from the banking department, but under their old system of management?—I have no hesitation in saying, that under no system of management could the Bank of England be warranted in permitting a severe drain of bullion to continue during three months,—a drain notoriously arising from a most extraordinary failure of the crops,—and at the same time permitting their banking reserve to run down to a very low point, without resorting to some very strong measures to correct this state of things.

1401. Supposing a second failure of the harvest had taken place, and that instead of having a very good harvest at the end of last year we had had a repetition of the calamity of famine, and we had required a further supply from America, then every calamity of that description must, according to your principle, be accompanied with such a contraction of the circulation of the country, as must throw things into that confusion in which we saw them last October, before the relaxation of the Act by the letter from the Treasury?—In reply to that question, I can only say that a second failure of the harvest would, under any circumstances, have been a most formidable calamity; but under the Act of 1844, we should have been better prepared to meet it than under the old system. Under the old system the bullion would have been certainly drained out during the first year of famine, and we should have had little or no gold in store with which to face the second calamity. Under the Act of 1844, we passed through the first year of famine with eight millions of gold still in reserve,

and we should have had that advantage at least, and it would have been no trifling advantage, in meeting the second calamity, had it occurred.

1402. Of what use can it be to the Bank to have that reserve of eight millions of bullion for this purpose, when they are under such a restriction, that having eight millions of bullion in their coffers they had a disposable reserve, at the period when they were reduced to the lowest, of only 1,170,000*l.*, and very little more than half a million of notes in the city of London at that time? What security has the public with regard to the position of the Bank from its having those eight millions, if those eight millions are rendered totally unavailable to them by the fact of their being restricted from using them by the Act of 1844?—Perhaps I shall better answer that question by begging the Committee to draw a complete and effectual distinction between the issue department and the banking department of the Bank. Whatever may be the amount of bullion in the issue department, notes to the same amount are put out by that department, and passed by the Bank of England to the hands of the public. The eight millions of bullion alluded to in the question, were represented by eight millions of notes issued to the public against the bullion. The advantage which the Bank and the public derive at any time from a large amount of bullion in deposit, consists in the corresponding large amount of notes which are issued to them, and remain at their disposal against that bullion.

1403. But in point of fact, at the period before mentioned, namely, on the 3rd of October, when the reserve

was at its lowest, the Bank had as its disposable means only 1,176,000*l.* of notes and 4,290,000*l.* of bullion ; and if there had come on the part of the depositors, or of any other persons having claims upon the Bank, claims to that amount upon the Bank, the Bank would have been brought to a stoppage with its 8,000,000*l.* of bullion in its coffers?—Confusion arises from not keeping the issue department entirely separate from the banking department. The Bank, as a banking concern, had not 8,000,000*l.* of bullion in its coffers. The Issue Commissioners had 8,000,000*l.* of bullion it is true. Against that 8,000,000*l.* of bullion, they had issued 8,000,000*l.* of notes, and the Bank, instead of keeping an adequate proportion of the notes so placed at its disposal in its own banking reserve, had issued them to the public to such an extent that the banking reserve was in a very reduced and dangerous position.

1404. But it was after the Government letter had been issued that it was reduced to that amount?—The principle of my argument is the same whatever period you take.

1405. Was not there another advantage to be derived from that large amount of bullion, which you state to have been in the hands of the issue department at that period, namely, that it effectually secured the convertibility of the currency?—No doubt that is the object aimed at, and the advantage secured by the Act of 1844. The very parties who are now complaining that there was a large amount of bullion lying useless, formerly complained that the bullion had been reduced to so low and dangerous an amount.

Their complaint on former occasions, I think, was perfectly reasonable, but now it seems to me without a shadow of foundation; because all the bullion that is in the issue department, is represented by notes in the hands of the public, and as the bullion fluctuates, the amount of notes in the hands of the public fluctuates likewise.

1406. Had we experienced, both in 1825 and 1839, that when the amount of bullion to support the circulation of the notes was left to the free discretion of the Bank, that discretion was so exercised as to endanger the convertibility of the circulation? — Undoubtedly. The Act of 1844 arose out of a feeling on the part of the public that on the three occasions of 1825, 1837, and 1839, on which the protection of the convertibility of the notes had been left to the discretionary action of the Bank of England, that safeguard had proved altogether unsatisfactory, and the convertibility of the notes had been exposed to danger, the recurrence of which the public would not again permit.

1407. Looking at the management of the Bank upon the last occasion with reference to its own reserve, which was to support its banking operations, the Bank having no longer the circulation to support, have we or have we not any reason to suppose that if the Bank had been allowed to deal freely with the reserve of bullion in the issue department we should have been exposed to the same danger as before? — I have no doubt whatever that if the Bank had not been restrained by the positive provisions of the Act of 1844, the continuance of that course which it had pursued from January to April

1847 would, in a very short time, have ended in a suspension of specie payments.

1408. In a question put to you it was assumed that the Bank was, in October 1847, in possession of eight millions of gold in its coffers. Supposing it be correct to take the issue department as a portion of the Bank of England, and to permit that the Bank was in possession of eight millions of gold at that period, do you conceive that it is at all likely that if they had not been placed under the restrictions of the Act of 1844 they would have been in the possession of that amount of bullion?—No. Had the Act of 1844 not been in existence I firmly believe the Bank would have lost all its gold in the summer of 1847.

1409. Therefore any argument proceeding upon the assumption that the Bank was, in October, last, in possession of eight millions of gold, is based upon an assumption which is not to be conceded as likely to happen except under the restrictions of the Act of 1844?—I believe most firmly that if the Act of 1844 had not been in existence the monetary trial to which the country was exposed in the spring of 1847 would have ended in the exhaustion of the gold and suspension of specie payments. But with regard to the store of gold in the issue department, it seems to me important that it should be clearly understood that all the advantages to be derived from that gold as forming part of the circulation are really accorded to the public through the representative of that gold, viz., the bank notes. You put the gold into store, and instead of the gold you receive for your convenience

bank notes. That being done, you must not afterwards say, "But we have got so much gold in the cellar it is absurd not to use it." The answer is, "Well, use the gold, but then give back the bank notes which have been issued to you against that gold, otherwise you want to have both the notes which represent the gold and the gold itself in circulation at the same time."

1410. With respect to the mode in which you estimate the amount of bullion: it was put to you whether the Bank had not a large amount of bullion in its coffers in the beginning of the year 1847, and you stated that there were 14,900,000*l.* of bullion in the coffers of the Bank; will you explain how you calculate that the Bank had so large a revenue at that period in its coffers?—I take that from the Bank returns in the "Gazette."

1411. On the 2nd of January, 1847, it appears that in the issue department, the Bank had 11,788,000*l.* of gold and 2,469,000*l.* of silver bullion; those two make together about 14,000,000*l.*?—Yes; and they had 693,000*l.* in the banking department.

1412. Then you take those three sums together?—When I speak of the bullion, I take the amount of bullion against which, according to the published Gazette returns, notes are issuable. On the 2nd of January, the total bullion was 14,951,000*l.*, and the total notes were 28,258,000*l.*, that being the amount of bullion plus the 14,000,000*l.* of notes issued against securities. But I apprehend that there must be deducted the 693,000*l.* bullion in the banking department, against which notes were not issued, that gold being itself in circulation, not

in deposit with the issue department. That, by the by, illustrates what I stated in a former answer. Against that 693,000*l.* gold which is placed at the command of the Bank in its banking department notes are not issued, and for this obvious reason, that if notes were issued against that gold, we should be using the same thing twice over, viz., the gold and notes representing the gold.

1413. In short, it was your intention, in answering the question, to observe the rule which you had laid down with respect to other questions, namely, that the issue department and the banking department should be kept quite separate?—Totally separate.

1414. You have stated that you consider that, in fact, the operation of this Act did, in the spring and the autumn of 1847, contribute to maintain an amount of bullion in the coffers of the Bank, which prevented any catastrophe; but is it not the fact that, with all this amount in the coffers of the Bank, if, on the 30th of October, there had come a demand upon the Bank for seven or eight hundred thousand pounds out of the 8,911,000*l.*, of deposits the Bank would have stopped payment; and would not a stoppage of payment in the banking department have been just as fatal to the credit of the Bank, and to the interest of the community, as a failure of any other description; and therefore did not the system of 1844 bring you, in fact, very close upon the brink of danger, by creating an artificial limit to the action of the Bank?—I apprehend the question is this: Whether, notwithstanding that the Act of 1844 main-

tained eight millions of bullion in the issue department on the 30th of October, yet as there was an insufficient banking reserve in the Bank at that time to meet its engagements, might not the banking department have stopped payment?—Undoubtedly that result was possible; but that result is in no way chargeable upon the Act of 1844, nor does it furnish any imputation upon its efficiency. The Act of 1844 was passed for the protection of specie payments, and that Act seems to me to have done its duty most efficiently under a trial more severe probably than any to which this monetary system has before been exposed. It maintained in the hands of the public an unusually large amount of notes, and at the same time protected the convertibility of that large amount of notes by an amount of specie much larger than on any former occasion of a similar character. But it was distinctly stated by Sir Robert Peel, when introducing the Act, that he left the Bank of England in its banking capacity untouched and uninterfered with, to manage its affairs according to its own discretion, like any other banking concern. Whether the Bank of England managed its own affairs wisely or unwisely, safely or unsafely, is quite a separate and distinct question, which does not in the slightest degree touch the efficiency of the Act of 1844 for the protection of the convertibility of the notes, the only purpose for which it was really efficient or intended to be so.

1415. But, in point of fact, the Bank would have stopped payment if out of 8,900,000*l.* private deposits a demand had come upon the Bank for less than one

million?—There is no doubt that the banking reserve of the Bank was reduced to an extent dangerously low.

1416. And were not they obliged in consequence of that to put a very heavy pressure upon commercial accommodation?—I totally deny that fact, and I appeal to the published returns in support of the denial. At the very moment spoken of, the total amount of securities in the hands of the Bank was 31,000,000*l.*, and the total amount of the private securities was 20,000,000*l.*, an amount almost, I believe, altogether without a precedent. Therefore I cannot understand how any person can say that at that time the Bank of England was putting a severe pressure upon the mercantile world, when, in point of fact, the notes in the hands of the public were to an amount almost unexampled, and whilst the amount of accommodation given to the public by the Bank in the form of discounts was an amount which I believe had never been known before.

1417. Will you state what was the rate of interest at the time when you say there were 20,000,000*l.* of securities at which the Bank was offering accommodation, or which it was demanding from persons necessitated to go to the Bank for accommodation?—The rate of interest was high. I think it was eight per cent.

1418. You have not seen the Bank return showing the highest rate in October to be nine and a half per cent.?—It is impossible to fix the precise amount, but it was unusually high.

1419. Are you aware of any parties going to the Bank, and even a larger amount of interest than that

being asked from them?—I am aware of applications to the Bank of what I should not call an ordinary or correct character, where the Bank, I think, very properly charged a very high rate.

1420. What do you mean by “applications not of an ordinary or correct character?”—I mean applications from parties who ordinarily are expected to take care of themselves, and not to have to apply to the Bank for assistance.

1421. Do not you think that it must put a very severe pressure upon the commercial world to demand ten per cent. for ordinary mercantile accommodation?—I think it very important to distinguish between a pressure upon the commercial world arising from a high rate of interest, that high rate of interest arising from the want of adequate capital to support the immense extent of mercantile and other operations which have been entered into, and a pressure put upon the commercial world by any direct action of the Bank of England. The Bank of England, so far from putting any pressure on the commercial world, actually endangered its own position by going to an improper extent in endeavouring to alleviate the pressure.

1422. You state, as a proof that the Bank went to a greater extent than usual in giving accommodation, that the number of notes in the hands of the public at the time was unusually large. Are you prepared to state that those notes were in circulation at the time?—I apprehend that we must in all scientific reasoning upon this subject take the notes in the hands of the public to

be notes in circulation. I know no other meaning of the expression.

1423. In the evidence which you gave before the House of Commons Committee in July, 1840, you stated in reference to the state of things in the month of June, 1838, "There arose a state of great public alarm, which acted in a manner tantamount to a contraction of the circulation." Taking that principle so clearly laid down by you into account, would the amount of notes which had been issued from the Bank measure the actual amount that were in actual circulation at that time?—I consider that the amount of notes in the hands of the public and the amount of notes in the Bank till constitute the amount of notes in circulation. It is perfectly true that the circulation may be in a more active or in a more dormant state. It is perfectly true that the same amount of notes will, at different times, be more efficient in performing the functions of circulation, than in proportion as confidence is firm the circulation is more efficient, and as confidence is shaken circulation becomes less efficient. A diminished efficiency of circulation and a contraction of the amount in circulation may, in some respects produce the same results; but they are still totally different things.

1424. At the period of time to which your late evidence has applied, in October, 1847, was there not a great state of alarm, which acted in a manner tantamount to a reduction of the circulation?—In October, there was a great disturbance in the state of confidence, which rendered the circulation less efficient for its purposes.

1425. Does not such a state of disturbance of public confidence necessitate an increase of the reserves which all men under great pecuniary engagements must keep in order to answer those engagements?—In a period of disturbed confidence the reserves of bankers are augmented.

1426. Within your experience, do you know any time in which there was a greater disturbance of credit, so as to necessitate an increase of the reserves than there was in that month of October, 1847?—I believe that the disturbance of credit was greater and more widely spread in 1825 than it was in 1847.

1427. But it was very great in 1847?—Certainly.

1428. Then if the circumstances of the general commercial and banking interests were such as to produce an effect upon the circulation which was tantamount (using the words which you used in 1840) to the contraction of the circulation, can the Committee infer from the actual amount of notes out, that the pressure was not felt and that the circulation was adequate?—I do not like combining those two things. I cannot say that the pressure was not felt, because there is no doubt that there was a very severe pressure felt in October, but it does not follow from that admission that the circulation was inadequate. Various meanings may be attached to that expression, and it is upon those meanings that the whole question will turn.

1429. You have referred to the increase of circulation and the increase of the securities as a proof that there was sufficient accommodation given?—I referred to it as

showing that there was as much accommodation given as could be given under the circumstances. I do not say sufficient accommodation, if by "sufficient" is meant sufficient to allay the pressure.

1430. You have referred to those facts as being the exponents of the amount of accommodation which was given; but if contemporaneously with that there was a diminution in the activity of the circulation which was tantamount to its contraction, is there any mode of distinguishing between those effects which would have arisen from actual contraction and those arising from the operation of an agent which was tantamount to contraction?—Some of the effects will be common to the two causes; of course those cannot be distinguished, but it seems to me that if there had not been that diminished efficiency of circulation to which my expression was applied, as being tantamount to a contraction of the circulation, we should not have succeeded in protecting our specie payments. The amount of notes in the hands of the public was not diminished. I think, unless there had been a diminished efficiency of those notes in discharging the purposes of circulation we should not have maintained specie payments.

1431. You stated that a want of confidence is tantamount to a contraction in the circulation?—It produces a diminished efficiency in the circulation.

1432. Do not you think that any thing which produces that want of confidence is objectionable?—I think that any thing which produces want of confidence is per se undesirable.

1433. Should not you, as a banker, having an amount of exchequer bills and other securities, look to the state of the reserve in the Bank of England in conducting your business?—I think it most important to attend to that consideration.

1434. And the knowledge that the Bank cannot issue beyond a certain amount of notes may induce you to realize your securities?—Considering the great magnitude of the operations of the Bank of England and the extent to which all subordinate concerns look to it, and in some degree depend upon it, any diminution of the banking reserve of the Bank of England is important; it is certainly calculated to excite attention, and to put all parties upon their guard.

1435. Were you rightly understood to say that if there had not been a diminution in the efficiency of the circulation the Bank would not have been able to secure the convertibility of its paper?—I meant to state substantially that I thought that the protection to the bullion against the effect of the drain was derived upon this occasion more from the diminished efficiency of the notes in the hands of the public than from the actual diminution in the amount of them. If we take the notes with the public and the notes in the banking till together, then of course the amount of the circulation so understood necessarily diminishes with the decrease of the bullion.

1436. Is not your last statement strictly coincident with and explained by an answer which you gave in 1840, in which you stated that the stoppages and the drains of 1838 and 1839 “arose from a great state of public alarm

which tended to render a certain quantity of circulating medium less effective for its purposes" than it would otherwise have been?—That answer has reference to the same principle.

1437. Both that answer and your present evidence assume that a given amount of circulation has a different effect at different times according to the state of credit?—A given amount of circulation is no doubt more or less efficient according to the existing state of credit.

1438. Does not the circulation act upon prices, and does not it act upon the foreign exchanges of the country not merely in proportion to its quantity but in proportion to its efficiency likewise?—The efficiency of the circulation is one of the considerations demanding attention when we enter upon the question of the effect of the circulation upon prices and upon the exchanges.

1439. You admit the fact that any given numerical amount of notes out may under different circumstances be in excess or not in excess, or, in other words, that there is no judging of the propriety or fitness of the amount of notes out by their numerical quantity?—Then I am afraid I have been totally misunderstood in my answers. The numerical quantity, that is to say, the proportion of notes to bullion in deposit, I consider an essential determining circumstance in reference to the question whether the notes out are too many or too few, whether they are in excess or not in excess, whether they are of the proper amount or less than the proper amount. What I stated is, that according to the existing state of credit any given amount of notes may be more or

less efficient, as also any given amount of coin may be more or less efficient. I take it that the paper circulation is to be the same in amount as a metallic circulation, and a metallic circulation will be more or less efficient according to the state of credit and of confidence. If under a diminished state of confidence a metallic circulation becomes insufficient for its purposes, the consequence will be that an additional supply of the precious metals will be brought into the country, and thus increase the circulation.

1440. You must have seen in your own time instances where there has been discredit of country banks, and where, for the purposes of obviating that discredit, they have drawn a much larger amount of Bank of England notes than they usually wanted, and perhaps in many instances more than they were likely to want, from mere apprehension. Supposing, for instance, when Mr. Brodie's bank broke at Salisbury, an alarm had gone through the country districts, and the country banks had sent, one for 10,000*l.*, and another for 20,000*l.*, and in that way a large amount of notes had been demanded from the Bank of England for the purpose of meeting discredit in some cases, and for the purpose in other cases merely of guard- from fear and apprehension timid men in their business, as bankers; under those circumstances might not several millions of Bank of England notes be required for a particular case of that description, which might be safely issued without any apprehension of such an issue of notes bringing a drain on the Bank of England for gold, particularly having reference to the case of 1825, when you will probably recollect that in a period of distress the Bank, having

nothing remaining in its coffers, re-established credit and confidence in the country by a large issue of Bank notes? —It is possible no doubt that the course of events assumed in the question may occur. The same combination of circumstances might also take place with a metallic currency. All that a paper currency pretends to do is to give to the public the convenience of paper money, when they would otherwise have the mechanical inconvenience of using metallic coin. Destruction or diminution of confidence, producing serious inconvenience, may arise in various forms either with a metallic currency or a paper currency. If it is intended to raise the question whether a paper circulation may be so arranged as to give to the public conveniences and ease under a restriction of credit and confidence which metallic money could not give to it, then that question must be regularly and distinctly followed out into all its details. I confess that I very much doubt whether that be practicable. I think the attempt would involve a danger much greater than the benefits which would attend it. Confidence may be disturbed from various causes under a metallic or under a paper circulation, and when so disturbed, the circulation, under any conceivable system of management, may prove insufficient for obviating all the inconvenient consequences. For instance, suppose a panic seized the great mass of depositors in this country; we know that an issue of twenty, thirty, forty or fifty millions of money might not be sufficient to meet the difficulty. Suppose again, that one-half of the existing country banks failed, there is no doubt that there would be a demand for currency under those circumstances

which the metallic circulation would not supply, and which a paper circulation, regulated upon any principles that I believe to be safe for ordinary purposes, would be insufficient to meet. Those are peculiar and extraordinary emergencies, possible but not reasonably probable contingencies, which you may imagine, but which, if they occur, will probably assume a form which has not been anticipated, and which can only be provided for by some extraordinary measure at the moment. No prospective provisions would probably be found to meet the real difficulty that occurs.

1441. But in the year 1825 we did meet the difficulty by the issue of a large amount of paper beyond that which would ordinarily have been prudent on the part of the Bank, the Bank at the time knowing that the foreign exchanges were not unfavourable, and that the paper was merely wanted to stay the panic in the country, and was not likely to come upon them for payment in specic. Is it not then desirable that the Bank should in all its transactions have the power of considering all the circumstances of the position in which it stands, and of determining whether there is, upon a consideration of all its circumstances, any danger in issuing a certain amount of paper at one time which might be dangerous at another ; and if that be so, is not that discretion entirely taken away from the Bank by the Act of 1844, which proceeds merely upon the figures without any consideration of the attending circumstances?—The occurrences of 1825 constitute a very peculiar case. There existed then a large mass of country banks issuing paper notes without any restriction or control

Whilst that system was in existence it was impossible to place the paper circulation of the Bank of England upon any satisfactory principle. The phenomenon which then occurred was this; in one week there occurred a destruction of about seven millions of the issues of country banks, and the Bank of England did not at that time really increase the aggregate paper circulation of the country, although it put seven millions of Bank of England notes in the place of those seven millions of country bank notes which had been suddenly and abruptly destroyed. That no doubt was an action which you could not bring under any principle, because the state in which the country issues existed at that time was amenable to no principle. It is presumed that under recent regulations those country issues are sufficiently protected from the recurrence of the catastrophe which took place in 1825.

1442. Are not those country bankers just as much exposed to be run upon by their depositors as if they were issuers of notes, and may not a country bank be just as much in want of Bank of England paper even if it does not issue any notes at all?—The question appears to confound the different functions of issuing and of banking. A banking concern, which is also an issuing body, may no doubt have a pressure upon it arising either from a destruction of confidence in its issues or arising from calls in its banking business.

1443. You have stated that the large issues of the Bank in 1825 are to be regarded to a great extent as a substitute for notes withdrawn rather than any positive addition to the circulation, but can you say in what state

the foreign exchanges were at that time, whether they were not at the period when that substitution took place in favour of the country?—I speak with some hesitation about the state of the foreign exchanges in 1825. My impression is, that the foreign exchanges then took that course which they ordinarily take under such circumstances; that in the early part of the year they were against this country, that the pressure which occurred corrected those foreign exchanges, and that just at the last stage of the pressure the foreign exchanges turned and became favourable.

1444. Assuming the exchange to have been in favour of England at that time, would not that operation of the Bank issuing seven millions of notes, whether they were in substitution or in addition, have been a safe one; and if there had been an adverse exchange would it not have been an unsafe one?—No, I think not. If there had been an adverse exchange it would have been necessary that there should be a contraction of the aggregate circulation. But a substitution of one form of circulation for another under such peculiar and exceptional circumstances as those of 1825 would have been quite a separate transaction, independent of and not to be regulated by the same principle as that contraction of the aggregate circulation which an adverse state of the foreign exchanges would have necessitated.

1445. But supposing it may be inferred from your answer that with those adverse exchanges a contraction of the circulation would have been required to preserve the convertibility of the paper, would not a substitution

of notes by the Bank to the full extent of the notes withdrawn have been the very opposite of that contraction, namely, the maintenance of the circulation at its former amount?—That arises from blending two transactions together. To understand the real rationale of them we must view them separately. If the exchanges were against us, it was necessary that the aggregate paper circulation of the country should be contracted; but if during that process a complete destruction of the whole paper circulation of country banks took place, I take it that looking at that fact quite separate from the other consideration, it was right in every sense and safe that the Bank of England should substitute its own notes in the place of the country notes so destroyed. But then whatever contraction was previously incumbent upon the aggregate circulation formed of the Bank of England notes and the country notes together would then be incumbent upon the Bank notes alone, and that must be effected.

1446. Supposing, for example sake, that the circulation anterior to the failure of the country banks had been twenty-five millions, and that that was a circulation which required contraction in reference to the state of the exchanges, and that five millions forming the country circulation is withdrawn, and five millions of the Bank of England paper substituted, would not the twenty-five millions then consisting altogether of Bank of England paper have required, for the sake of securing convertibility, the same process of contraction which the twenty millions of Bank of England paper, plus the five millions of country paper, would have required?—Undoubtedly.

1447. Would not a different operation with respect to the amount of notes issued be rendered necessary and prudent in a case in which the exchange is adverse to the country, as compared with a case in which the exchange is favourable to the country?—The two things are separate and distinct. It seems to me that we are merely discussing about the mode of expressing ourselves; there is no real difference of opinion. Under an adverse exchange the aggregate circulation ought to be contracted; but it is possible that under an adverse exchange there may be a substitution of one portion of the circulation for another portion, which may be effected without reference to the other and distinct duty of contracting the aggregate amount of the circulation.

1448. Under an adverse exchange the circulation ought to be contracted, under a favourable exchange no such necessity exists?—Exactly.

1449. Does the Act of 1844 in any shape whatever recognize the principle of making any difference according to whether there is an adverse or a favourable exchange?—It recognizes the principle as tested by the state of the bullion. The Act of 1844 simply proceeds upon this plain principle: It says, we will give to the public fourteen millions of notes issued upon securities without any reference to bullion; after that we leave the public to decide for themselves what additional quantity of circulation they will have; whatever quantity of bullion they choose to place in the issue department shall be returned to their hands in the more convenient form of notes. The public may then decide for themselves what quantity of

notes they will have, by bringing more or less bullion to the issue department.

1450. Then the principle of the Act of 1844 has reference purely to the amount of bullion at any one time as compared with another time, and has no reference to the question whether that bullion has increased or diminished by the action of the foreign exchanges or from any other cause?—The Act of 1844 substantially does not look to the causes of an increase or diminution of bullion. It merely says to the public, if you like to have the bullion coined, and to use it in that form, you shall have it; if you do not like that and like to deposit your bullion in our cellars, you shall have the convenience of having notes in its stead.

1451. Yet in a previous answer you were understood to state that under adverse foreign exchanges a contraction of the circulation might be required which would not be required if the exchanges were favourable. Do you consider that under adverse exchanges a contraction of the circulation might be indispensably necessary with a view to preserve convertibility, which in a state of favourable exchanges and influx of gold would not be required with a view to preserve convertibility?—There is no necessity for a contraction of the circulation whilst gold is coming in.

1452. Then supposing the exchanges favourable to this country, with a demand for gold upon the Bank for internal purposes, the exchanges being favourable, must there not under the Act of 1844 be a contraction of the circulation tantamount and just in the same degree as if the demand was for foreign purposes?—I apprehend that

upon that supposition there is no contraction of the circulation. The bullion in deposit is not in circulation ; the notes put out against that bullion are in circulation ? but the moment the bullion is taken out of deposit for internal purposes it becomes part of the circulation ; that is the very meaning of the distinction of internal purposes as contrasted with foreign drain ; therefore you would actually increase the circulation unless the bullion so taken out and put into circulation is met by a corresponding suppression of the notes. The notes that are out represent the bullion that is in deposit ; consequently if without any diminution of those notes you take bullion out, not to go abroad, but to be added to the circulation, you actually increase the circulation to that extent.

1453. Is there any difference in the action of the Bank Act of 1844 between what would take place whether the drain is for internal or for external purposes ?—No, there is no difference in the Act of 1844, but there is a great difference in the effect of the action of the public in the two cases. If the public takes gold out of the issue department for the purpose of foreign export, that act adds nothing to the circulation of the country, but if the public takes gold out of the issue department for the purposes of internal circulation, unless there is a corresponding contraction in the notes the circulation of the country would be increased to that amount. Consequently, that is not the effect of the Act of 1844, but it is the act of the public ; if they take bullion out for foreign export, that act does not add to the circulation ; if they take bullion out for internal purposes, that act does add to the circulation.

1454. You do not suppose that gold is taken out for internal purposes for what may be termed circulation. If it is taken out at all, is not it most probable, and almost certain, that it must be taken out for the purpose of hoarding against panic, or for an increase of reserves? —I apprehend that coin or notes are properly said to be in circulation, whenever they are discharging any of the various functions of money. It seems to me a fallacy to say, that “money in circulation,” means only that which is actually in motion; it means that which is used or retained for any of the purposes for which money is required. I believe that the most efficient form in which money can subsist is in banking reserves, far more than when in the possession of private concerns or of individuals.

1455. Supposing a given sum, say a million, is ordinarily required for the circulation of any given district of country, and a panic suddenly comes in that district, and that million is increased to a million and a half, would not you say that that district takes half a million more circulation than is wanted for what may be technically and strictly called the purposes of circulation? —By assuming various combinations of circumstances, which are accidental, and subject to no principle, we may create interminable difficulty and confusion in reasoning. In the case put, all that can be said is, that half a million more circulation will be required at one time than at another. It may be, as I have already stated, that under different states of confidence, money may pass from hand to hand less freely, or in other words, that each individual may think it necessary to keep a larger proportion, and

that, therefore, a greater quantity of money may become necessary for performing with the same degree of convenience the same quantity of purposes.

1456. And that under certain circumstances there may be issues to a larger extent in paper, than under other circumstances it would be prudent to make?—But before you issue more paper, which I always look upon as nothing more than a representative of gold in deposit, those certain circumstances should bring in the gold. If the circulation be contracted virtually by discredit, let the legitimate effect be shown in bringing gold into the country, and against the gold so brought in issue more notes. But do not issue notes as the representative of gold, until you have got the gold in the country to be represented.

1457. When does gold come in? does it come in under an adverse exchange or under a favourable exchange?—Of course under a favourable exchange.

1458. Then would not the issue of notes be dependent upon whether the exchanges were favourable or unfavourable?—Yes.

1459. Is it not then saying the same thing?—I do not understand the question. You want to put the issue of notes first, and to calculate that gold is to come in afterwards. I say, no; let me have the gold in first, before I issue notes, which are or ought to be certificates of the deposit of the gold.

1460. Do you think that the amount of bullion which is returned by the Bank, can be taken as more than the best exponent you have of the state of influx or efflux of

the precious metals in and out of the country?—I take the state of the bullion in the Bank to be a correct exponent of the portion of the precious metals which the public choose to have converted into money.

1461. In your evidence in 1840, you stated, in reference to the amount of bullion in the Bank, that “the object is to ascertain, by the best means placed within our reach, what are the fluctuations in the bullion arising from the influx and efflux out of this country;” does not that refer distinctly to the state of the bullion as exhibited by the foreign drain?—It would perhaps have been better to have omitted the last few words of that answer. When I gave that answer, the idea of drawing distinctions as to the mode of treating the bullion in deposit, classifying it under that which comes in and goes out for domestic purposes, and that which comes in and goes out for foreign purposes, and proposing to regulate the issue of notes differently according to those circumstances, had not been suggested to me; but really it seems to me, that the discussion of this point is going a great deal further than is at all necessary. I look upon the principle of the Act of 1844, to be this, that it leaves the community at large to determine for themselves what quantity of money they want, and what quantity of money they choose to have; it offers no impediment to the import into the country of such a proportion of the precious metals of the world as the action of free commerce shall determine; it then says, of the precious metals so brought into this country, the public shall determine, by reference to their own wants, what proportion they will place in the issue department

of the Bank for the purpose of having it converted into money. And then the Act says, for the bullion which is so brought into the issue department for the purpose of being converted into money, we will give you the convenience of having notes representing that bullion, instead of having the heavy and inconvenient metal itself. That really is the sum and substance of the Act, in which there is no mystery and no complication.

1462. Do you think that the observations which are made in the Bullion Report, and in Mr. Thornton's work upon paper credit, drawing a distinction between what ought to be the action of the Bank in times of internal and in times of external drain, are founded upon error?—I think it very possible that the author of the Bullion Report, or that Mr. Thornton, directing their principal attention to a great principle, may have expressed themselves with reference to some subordinate considerations in language which, if those subordinate considerations had been brought more pointedly under their consideration they would qualify and revise.

1463. What would you state as the cause of the efflux of gold from this country to foreign countries?—That it is a cheaper commodity to export than any other. If bullion goes out of this country, it is because a foreign payment can be made more profitably in bullion than in any other commodity.

1464. Would it not be evident when bullion was exported from this country that there was an excess, or, in other words, a depreciation of the currency in this country as compared with foreign countries?—It would

be evident that bullion was a cheaper commodity to export than other commodities.

1465. What would be the causes to which you would attribute an internal drain for gold?—The causes are endless.

1466. Are they not entirely distinguishable from the causes which would produce a foreign export?—Certainly.

1467. Does not the Act of 1844, deal with the two things, though proceeding from different causes, in the same manner?—I do not think the Act of 1844, deals with either of them. The Act of 1844 merely says, whatever quantity of gold any person in the United Empire chooses to place in the issue department, we will give him bank notes to represent it as a matter of convenience; and if gold is required, whether for internal or foreign purposes, we will deliver it upon receiving back the notes issued against it.

1468. Supposing there were a drain of gold for internal purposes, and the use made of that gold was such as to reduce the circulation by hoarding considerably, would not that have an additional tendency to increase the supply of gold by influx from other countries?—No doubt; a diminished efficiency of the circulation tends to affect the foreign exchanges, and through that effect upon the foreign exchanges to bring gold into the country, and thus in a legitimate mode to augment the circulation of the country.

1469. You think that to leave the operation to the natural process which would take place under a metallic currency, is much more safe for the community than to

entrust a discretionary power upon the subject to anybody?—I consider the Act of 1844, is founded upon a recognition on the part of the whole community, that discretionary management of the circulation had been tried and had completely failed, and that some certain mode of regulating the currency must be resorted to.

1470. Opinions have been quoted from persons of eminence upon previous occasions. You are no doubt well acquainted with the writings of the persons whose opinions have been quoted; would you be disposed to say that the distinctions which they drew, were attempts to attain an object in the management of the currency somewhat similar to that which has been established by the Act of 1844, namely, to lay down some certain principle by which the Bank of England should regulate their issues?—Yes. I apprehend that with all the distinguished men who have applied their minds to the subject, it has been a continued endeavour for a length of time past, to subject the currency of the country to some certain and fixed rules; that defects have from time to time been discovered, to which remedies have been applied, and the Act of 1844 was the last attempt to remedy the last defects which experience had proved to exist.

1471. With reference to the distinction between an internal and an external drain, do you think that a distinction of that kind, if it had been laid down, would have been as effectual for the proper regulation of the currency as a separation of the two departments of the Bank of England, and provisions which subject the issue of the Bank of England to the same regulations as the metallic

currency?—I do not think there can be any satisfactory regulation founded upon the basis of drawing a distinction between an internal and external drain. There is an ambiguity in the use of the word “drain;” it ought to be applied only to a demand for gold, not to a demand for notes. If gold is taken out of the issue department for any purpose that is justly called a drain, that drain ought to be met by a contraction of notes: because if that gold goes into the country for circulation, it becomes an addition to the circulation, and ought to be met by a corresponding contraction of the notes, so as to keep the circulation where it was before.

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1477. You can conceive no case in which it would occur that the efficiency of the circulation would be diminished, without any reference to the quantity of bullion in the hands of the Bank?—That may be possible. But the question put to me referred to the diminished efficiency of the notes consequent upon a drain of bullion. Assuming any given amount of bullion, that is represented by notes, a portion of those notes are in the hands of the public, and a portion in the banking till of the Bank. Now, the question assumes a drain upon the bullion, which is met by keeping the notes in the hands of the public undiminished; therefore, to whatever extent the drain acts upon the bullion, to the same extent it must act in diminishing the notes in the till of the Bank. That diminution of notes in the till of the Bank will act upon public confidence, and through that action upon public confidence it will render the notes in the hands of

the public, though undiminished in amount, less efficient in their action.

1478. You stated that in October 1847, a diminution in the efficiency of the circulation did take place. Do you mean that a diminution in the efficiency of the circulation could not take place under any other circumstances but diminution of the bullion in the hands of the Bank?—No, I do not mean to state that; it may take place possibly from other circumstances also.

1479. Then, although you consider that under the existing state of the issues at that time, the convertibility of the paper would not have been secured, unless there had been a diminution in the efficiency of the circulation, it does not follow that there are not occasions on which the convertibility of the paper would be endangered by the restriction of the Act of 1844?—I do not feel the force of the reasoning. I can only re-state my former answer: that under the provisions of the Act of 1844, whenever there is a drain upon the bullion there must be a drain upon the aggregate notes out of the issue department; that a diminution of the aggregate notes out of the issue department, may by the Bank of England be made to fall entirely upon the notes in the banking till, so as to keep the notes in the hands of the public undiminished. If it be so managed, as was the case from January to April 1847, the effect will be a serious diminution in the banking reserve of the Bank, and that diminution in the banking reserve of the Bank, will necessarily shake public confidence, and by shaking public confidence, you render the notes in the hands of

the public, although undiminished in amount, yet much diminished in efficiency. Therefore the Act of 1844 does afford a great protection, through that process, to the bullion.

1480. Do you consider the interposition of Her Majesty's Government in the month of October, to have been necessary at that time?—I think the intervention of the Government at that time was necessary.

1481. What do you think would have been the consequences if that intervention had not taken place?—I apprehend the consequences would have been that the panic which had seized the public mind, would have gone to such an extent as to produce very serious confusion.

1482. If that be admitted to be the case, should not the Committee conclude from that that the Act of 1844 should not be suffered to continue in force, or at least, that if continued in force there should be the power of relaxation, which you state upon the present occasion to have been so effectual?—I do not think that would be a right conclusion to draw from the admission.

1483. Did not the interposition of Her Majesty's Government, so far as its recommendation went, amount to a practical departure from the principles of the Act of 1844?—It was a departure from the positive provisions of the Act of 1844, but not a departure, I think, from the principle of that Act. It appears to me that the provisions of the Act of 1844 are sufficient for every purpose which can be considered as subject to any definite principle. But it is possible that circumstances may occur under the influence of panic, of such a nature that no principle

whatever can be applied to them,—circumstances which cannot be foreseen nor provided for by any previous arrangements, and which must therefore be dealt with according to the peculiar character of the emergency when it occurs.

1484. And upon the responsibility of those who interpose?—Under the responsibility of the Government.

1485. You have stated that such an interposition may be necessary under circumstances of panic; are those circumstances of panic circumstances arising from an internal drain for the most part?—I am more disposed to consider the internal drain an effect than a cause of the panic.

1486. Do you conceive that you can, at one and the same time, rely upon the Act of Parliament of 1844 as containing within itself the elements of safety, and yet justify the act of the responsible Government in sanctioning and recommending a deviation from it?—Undoubtedly I do. I apprehend that we have many Acts of Parliament still retained upon the Statute Book of this country, of which the Legislature has sanctioned the violation at times of peculiar emergency under the authority of the Government of the day.

1487. The question does not refer to whether the Government were right or wrong in issuing the letter; but the question is, can we at once justify the letter, which is a deviation from the Act of 1844, and justify the Act of 1844, which is at variance with the letter?—I apprehend that we can. There are precedents in abundance in the history of this country for that purpose; namely, justify-

ing the Government in suspending the provisions of an Act of Parliament, which Act of Parliament is still retained as useful and efficient for its purposes. We justify the occasional suspension of the Habeas Corpus Act, and still venerate that Act as the safeguard of our liberties.

1488. Do you consider the principle of the Act to remain intact, and one upon which reliance can be placed, assuming it to be just, after it has been departed from in a time of exigency?—I apprehend that the principle of the Act does remain perfectly intact. The principle of the Act is to regulate and control all those actions upon the bullion which arise from legitimate causes, and are capable of being controlled by measures which rest upon principle. But there may be actions upon the state of the circulation arising from accidental causes, as panic, and therefore not controllable by principle, which the Act cannot regulate, and which must therefore, if they run to an excessive extent, be reached by some extraordinary power.

1489. In your evidence in July, 1840, you stated, in reference to this subject, that when an internal demand is raised, there is no principle upon which you can stop that. Does that illustrate the argument that is to be deduced from your later answers?—I hardly perceive the drift of the question: but there is no doubt that the Act of 1844 goes upon the principle of maintaining the convertibility of the notes, by maintaining them always at the same amount that a metallic currency would have been, and that a metallic currency never could be drained out of the country. But it is perfectly possible that such a shock to

confidence may take place as to cause a demand for the conversion of notes into gold which could not be satisfied. For instance, the Act, in allowing 14,000,000*l.* of notes to be issued unrepresented by bullion, and at the same time declaring those notes to be convertible, no doubt leaves the paper circulation of the country open to the contingency of a possible extent of panic which shall produce such a demand for the conversion of notes into gold as cannot be met. But that would be a demand not arising from anything improper or defective in the state of the circulation. Notwithstanding, therefore, that the Act does leave the notes unprotected in that sense of the word, still I consider that that provision of the Act is perfectly defensible, and that, should the supposed contingency occur, it would in no respect invalidate the principle of the Act.

1490. Upon what principle do you conceive the precise sum of 14,000,000*l.* to have been adopted as the measure of the surplus?—I apprehend it was this,—that the framers of the Act looked at the returns of the state of the circulation through past periods, and they found that the lowest amount to which the circulation had ever been reduced, would allow 14,000,000*l.* of notes to remain with the public, and also an adequate quantity to supply the banking till of the Bank. For instance, assuming that the circulation had never been reduced so low as 17,000,000*l.*, and also assuming that it never will again be reduced lower than it has been reduced, they came to the conclusion that in the worst circumstances we may safely have 14,000,000*l.* unrepresented by bullion, and three or four millions in the banking till.

1491. So that if by any accident, from any of those extraordinary circumstances which you admit to be possible, a drain came upon the bullion of the Bank of England, and it were really to come down to a million or to half a million, the Bank would be obliged, under this Act, to bring down its circulation of paper to fourteen millions and a half?—No doubt; but when you are dealing with suppositions, and not with facts, you must always take care that the supposition is a reasonably possible one. The Act is based upon the belief that that is not a reasonable and possible supposition; that long before the notes were reduced to the amount supposed, there would be such an action upon the foreign exchanges as would cause bullion to come back to this country; that the gold, in fact, never could be reduced to the low amount assumed in the question.

1492. Had you not actually the case in 1825 of the bullion being reduced below 500,000*l.*, when the public were relieved by a large issue? If, on the contrary, at that time the bank had taken the other course, and brought down their issue of Bank paper to fourteen millions and a quarter, what would have been the condition of the country?—If we had had the Act of 1844 at that time, we could not have reached that state of things. The question assumes that under the Act of 1844 a state of things will arrive, the possibility of which is prevented by the Act of 1844.

1493. You admit that the interference of the Government upon the present occasion was justifiable. Therefore, supposing this regulation of the Bank to continue,

would you propose that it should be accompanied with a provision giving power to interfere, or merely that it should be left to the Government to interfere upon its own authority in a case of great emergency?—That it should be left to the Government to interfere upon its own authority.

1494. Then under those circumstances you would think the Government not justifiable in interfering, unless under very particular circumstances of pressure? Certainly, under very extraordinary circumstances of pressure.

1495. When you approached to that period of pressure,—when, for instance, in the city of London you came near to the day when the Government did interfere, was not the confusion and the sacrifice of property, and the distress to individuals and to general commerce extreme? Would not you always create extreme pressure and extreme distress if you obliged the Government to wait for an extreme case before it interfered?—I apprehend that occasional periods of pressure are absolutely unavoidable under any system for the management of the circulation; that whenever there is a sudden necessity for an unusually large importation of commodities, especially of corn, in consequence of a failure of the harvest, it is necessary for the preservation of the monetary system of the country that there should be pressure. Parties must be subjected to the degree of pressure which will induce them to make various sacrifices for the purpose of keeping the balance of our payments in a proper state. That pressure, though inconvenient at the time, is salutary and

unavoidable. It obviates much severer evils that would otherwise occur. It is an evil not gratuitously created by legislation, but arising out of uncontrollable causes; and the country submits to it as the painful though necessary means of preventing greater mischief.

1496. Do you suppose than any evil can occur to a great commercial city greater than that which happened during the year 1847 in the City of London, or that there ever were instances in which so complete a sacrifice of property, and so complete an impoverishment of commercial capital, has taken place in any country?—I have no doubt that there existed much greater pressure, and that the evils alluded to in the question occurred in a severer form in this country in 1783, in 1793, and in 1825. We are always apt to form an exaggerated estimate of the present evil. This is the account given by Mr. Tooke of what took place in 1783: "This contraction of the currency was attended with a great rise in the rate of interest. Consols fell from sixty-eight to fifty-four. Omnium from a premium of eight per cent. to below par. Every one (says Chalmers) must remember how impossible it was to borrow money on any security for any premium." Then again, take 1793: "Many houses of the most established credit failed. Houses of undoubted solidity, possessing ample funds, which actually did in a short time enable them to pay every shilling of their debts, were obliged to stop payment. Some bankers who almost immediately on recovering from the first panic resumed the regularity of their payments were obliged to make a pause. Many whom the temporary assistance

of even a moderate sum would have enabled to surmount their difficulties could not obtain any accommodation. Those who had any money, not knowing where they could place it with safety, kept it unemployed and locked up in their coffers." Such is the account given in Macpherson's Annals of Commerce of the pressure in 1793. It would be a most incorrect and exaggerated account of the state of things in 1847. Then again, as regards 1825, we have Lord Ashburton's account of 1825 as given in Sir Robert Peel's speech, which taken as a description of 1847 would be a great exaggeration.

1497. Is it not true that parties kept large amounts both of notes and gold locked up during 1847?—In any period of discredit that is always true, more or less. I believe however, that it is usually much over-estimated.

1498. Supposing, in addition to the pressure which actually took place in October last, there had existed, what did exist upon those former occasions, an apprehension as to the credit of the currency, would not that have aggravated intensely the pressure in October 1847?—It would have been perfectly frightful.

1499. You were understood to say that you entirely approved of the letter of Her Majesty's Ministers, and that you think that if that letter had not been written there would have been very great confusion in the country?—I stated my opinion to that effect.

1500. Do you think that it ought to be left in the power of two individuals holding no official situation at all under the Government either to prevent or to create that confusion; for if the Governor and Deputy Governor

of the Bank of England had said, "We have got your letter, and we will lay it on the table, but we will not obey it," how could the Government of the country have compelled the Bank to do what they did?—The Bank actually did nothing under the letter as regards the circulation. The amount of notes with the public was not increased. The letter gave unlimited power of issue to the Bank, but that power was not exercised.

1501. What was the object of the Government letter?—The object of the letter was to allay the feeling of panic which had arisen; and it proposed to effect this by placing an unlimited amount of circulation at the disposal of the Bank of England. It is quite true, speaking abstractedly, that the Bank of England might have chosen to say, "We will not issue more notes." But that is true at any time. The Bank of England might at any moment say, "We command six or seven and twenty millions of bank notes, and we will not issue a farthing of them."

1502. Supposing you had had a very scrupulous man Governor of the Bank of England who had said, "There is no power on earth that shall force me to violate the law: I will not do it;" what would have become of the country then?—The authority to issue would probably be sufficient without the actual increase of issues, as was the case; but if not, the refusal by the Bank to issue is too improbable to require serious consideration.

1503. Was not the result of the panic in 1847 not only to ruin a great many individuals in commerce and in trade, but did it not also seriously affect the landed

interest of the country?—I really cannot judge of the state of the landed interest, except by my own experience. My rents have been very regularly paid ever since.

1504. Had you any money lent out upon mortgage?
—Yes.

1505. What was the result? Was the interest upon the mortgages raised?—The borrowers chose the alternative of paying off the mortgages rather than consent to raise the interest.

1506. In point of fact did most or a great many persons who held mortgages give notice to the parties that if they did not raise the interest they must pay the money?—I cannot speak upon that; but there is no doubt that during the year 1847 there was a general rise in the rate of interest, but that rise was of a very temporary character, as is proved by the rate having now fallen back to a very low point. That rise in the rate of interest it must be clearly understood was the unavoidable consequence of the great diminution which the capital of the country applicable to commercial purposes had sustained, and which it was beyond the power of any man to prevent who had not the control of the seasons.

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29th February, 1848.

The Lord President in the Chair.

1513. Is there any thing that you wish to state to the Committee in explanation of your evidence yesterday?—I have reflected upon what passed yesterday, and as it seems to me that the course of the examination occasionally became irregular and desultory, I think it may be useful to the purpose of the inquiry if I endeavour to recapitulate, very shortly, the line of reasoning which I wished to submit to the Committee.

1514. Will you have the goodness to do so?

1st. The Act of 1844 did not make the course of things in 1847 different from what it ought otherwise to have been. It only secured the certainty of that course which the exercise of sound discretion would otherwise have dictated. It did not *cause* the pressure, nor *aggravate* the pressure; but it protected the country from the additional evil of exhaustion of bullion and suspension of specie payments, by stopping the Bank in its wild and ruinous course in April.

2nd. Pressure is necessary as a means for correcting adverse exchanges. The degree of pressure requisite for that purpose is not an evil, but a merit, in any system for the management of the currency. The pressure of

April was not fully sufficient for correction of the exchanges: any alleviation of that pressure would have been most mischievous, it would have necessitated greater pressure ultimately. No system which pretends to provide for convertibility of the notes can avoid pressure.

3rd. Any provision by law for alleviating the pressure in its last stages will very probably have the effect of really increasing the pressure. The natural correctives are such as parties will resort to only under the apprehension of severe pressure if they do not so provide against it. But if the law makes provision for the relief of that pressure in its last stage, all parties will calculate on this, and will hope, by holding out, to avoid the inconvenience of resorting to the legitimate correctives, and to benefit by the ultimate relaxation.

4th. The Bill is adapted to and sufficient for all cases which are amenable to principle. It is only in cases of *extreme* panic that special intervention is requisite. Such cases are not subject to any principle; they cannot be provided for beforehand; the peculiar character of each case cannot be anticipated. In 1793 an issue of exchequer bills met the difficulty, but in 1847 it would have been useless.

5th. Pressure, and a high rate of interest, *caused by the want of sufficient capital*, cannot be relieved by an extra issue of Bank notes. The attempt to do so can only tend to check the legitimate causes of relief.

6th. But, it is asked, may not *pressure caused by panic* be relieved by an extra issue of bank notes? The Act of 1844 is based upon the principle that, as regards the

amount, a metallic currency is a perfect type of currency, and that paper money is useful only on account of its economy and convenience. Metallic money will be increased by the effect of panic turning the exchanges, and thus causing gold to come in; and notes being issued against the gold which thus comes in, the paper money will also be increased. But if it is proposed to issue more notes before the gold comes in, then, in that case, it is first necessary to be well assured that the exchanges are in a sound state, *and that the extra issue of paper money will not generate any new cause of derangement*. How can this assurance be obtained? Again, the knowledge that the first symptoms of panic will be met by an extra issue of notes will tend to check the resort to the natural correctives. How can one distinguish legislatively pressure from panic, and pressure from legitimate causes? They are always more or less blended in fact, and in the excitement of the moment legitimate pressure will be construed as panic. Pressure from panic will vary in its character on every successive occasion, and require a different remedy. Issue of exchequer bills relieved panic in 1793, but would have totally failed for that purpose in 1847. The remedy, to be effectual, must, in all probability, be applied abruptly, not gradually, and the power of issue must be unlimited, not restricted in amount. Panic cannot be effectually provided for by any previous regulation. Suppose all depositors throughout the kingdom, through panic, simultaneously call for their deposits, what amount of notes can be sufficient to meet this demand, or how can adequate sales of securities be effected? Or suppose

sudden insolvency of the present country issues, as in 1825. Suppose, again, after an extra issue of notes to meet panic, that panic feeling turns against the notes themselves, and gold is demanded for them. The very issue of 14,000,000*l.* notes on securities unrepresented by gold, and yet convertible, is a distinct repudiation of the principle of attending to or providing against panic. This, like the other provisions of the Act of 1844, is sound and safe in all cases amenable to principle, but no doubt it may break down under the irregular and uncontrollable force of panic. Provision to meet the effect of panic, as distinguished from legitimate pressure, must necessarily vest discretionary power in some parties. Now the Act of 1844 originated in the repeated experience of the certain abuse of all discretionary power respecting the management of the circulation. The best correctives of panic, though they may not be perfect, are to be found in the provisions of the Act which secure a contraction of notes commencing with the first decrease of bullion, and which, by that means, further secure an amount of bullion at all times sufficient to protect the convertibility of the notes from all *reasonable* danger. Thus the Act of 1844 enables the country to meet the difficulties which attend a state of panic with a larger amount of bullion in deposit; thus diminishing the cause of panic; and also with a larger amount of notes at the disposal of the Bank, thus increasing the legitimate means of meeting panic.

1515. You stated yesterday that you thought that the letter that was sent by the Government to the Bank, on the 25th of October, was much to be deplored, but that it

was a matter of necessity, and that if it had not been sent calamities of the most frightful sort would have occurred. What is the nature of those calamities that you apprehend?—The various forms of confusion that are likely to arise from an extreme state of panic in the public mind.

1516. A run for gold?—No; I apprehend that was precisely the one evil against which the Act had afforded a sufficient and complete protection,—that whilst the public saw there were eight millions of bullion in the coffers of the issue department, a run for gold to any extent was very improbable.

1517. At what period do you conceive that those dangers arose?—It is exceedingly difficult to state precisely the period at which they arose, because it is a gradual process: in proportion as the panic becomes more and more prevalent upon the public mind, the evil becomes more and more imminent.

1518. What was the period at which you think these dangers were so imminent that it became a matter of necessity to issue the letter?—As far as I can judge I should say at the time at which the letter was issued.

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1533. Up to the period of 1847 the Bank Act of 1844 was supposed to have operated exceedingly well?—That was the common opinion; but it was perfectly clear that till there came a drain of bullion the Act was not put to its trial in one most essential respect.

1534. And when it came to be put to its test, namely, in October, 1847, it was necessary to suspend it?—It was necessary to suspend temporarily one of the provisions of

the Act, but not in consequence of any occurrence connected with the principles upon which the Act was founded. The Act was perfectly effectual for the purpose for which it was passed ; this is proved by the fact that upon no former occasion of a heavy drain of bullion had the convertibility of the notes been so protected as to be beyond reach of question, which was effectually accomplished in 1847.

1535. But in other respects the danger to which the Bank was brought was so great, that it occasioned a general panic in the public mind?—That is mixing the banking business with the issue department. The danger to the Bank occurred in its banking business. The Act of 1844 has only to do with the issue department.

1536. But where there is good sense and discretion in the management of the Bank, is not it better that they should have an entire discretion, and be able to manage both at the same time, so that the one department may assist the other in time of need?—If you assume that the discretion on the part of the Bank is perfect, then the discretionary action of the Bank and the provisions of the Act become identical : but experience has convinced us that the Act was needful, because the discretion on the part of the Bank was never perfect, but very far from it.

1537. You say that the operation of the Act was perfect for what you consider to be the great object of a regulation of that description, namely, the convertibility of the note into bullion ; you consider that that is a point for which every thing else should be sacrificed?—It is the basis of the Act of 1844 that the convertibility of the

Bank note is to be effectually protected, and the Act was deemed a measure necessary and efficient for that purpose. I do not consider that other things are sacrificed to that purpose, but rather that the accomplishment of that purpose protects the public from far greater evils.

1538. But if it be proved that though the power of the Bank to pay its Bank notes never could be doubted, yet it was brought within a very small amount of stopping payment altogether when its reserve was at its lowest point; do you consider that the object, the principle as you would call it, of the circulation was obtained by preserving the power of the Bank to pay its Bank notes in specie, when the Bank itself was brought within a few hundred thousand pounds of being obliged absolutely to stop payment, having at the same time eight millions of bullion in its coffers?—Do you conceive that it answers any purpose, except that of establishing some useless theory,—that, in fact, any practical object is gained for the public by putting the whole state of manufactures and commerce of this country into the distress into which it was brought, and leaving the Bank, after all your precautions, in a condition of entire want of safety as to, not the payment of its Bank notes in specie, but the payment of its deposits, or any other claim that might at that time come upon the Bank?—I apprehend the question proceeds entirely upon the confusion which always arises when we blend together the consideration of the management of the circulation, and the conduct of the Bank in its banking operations. I apprehend that it is any thing but useless theory which provides regulations by which the converti-

bility of the Bank notes is amply and effectually provided for; regulations which secure at all times, and under periods of the severest trial, the certainty of retaining such an amount of bullion as shall place the convertibility of the Bank note beyond all reasonable question, and prevent the occurrence of any feeling of public alarm upon that point. That result I conceive that the Act of 1844 effectually accomplished, and in so doing, rendered a most important service to the public. It was not pretended by the author of the Act that it introduced any regulations to secure wisdom or discretion on the part of the Bank of England in the management of its banking affairs; if in the exercise of the discretionary powers still left to the Directors of the Bank, they bring the banking affairs of the Bank into any species of difficulty, the responsibility rests with them, and not with the Act. It is, however, a great diminution of the public evils which must at any time arise from mismanagement in the banking department, that there exists in the issue department such an amount of bullion as protects the public from any apprehension regarding the solidity of its monetary system, happen what may to the Bank of England in its banking concerns.

1539. You admit that the Bank of England was in imminent peril of not being able to meet its engagements in the latter part of October, when its reserve was at its lowest, though it was in no peril of not being able to pay its Bank notes in specie?—I must first object to the form of the language which speaks of the Bank of England being in no peril of not being able to pay its notes in specie. I

consider the issue department to be entirely a separate thing, and that it has nothing to do with the Bank of England in its banking business. The issue department is always prepared to pay its notes in gold. But I must also qualify what is assumed to be my admission in the other part of the question; the banking reserve of the Bank of England was undoubtedly reduced to a very low, I think a very undesirable point; but such is the peculiar relation in which the Bank of England, from the magnitude of its capital and resources, stands towards the public, that I am rather inclined to think that the Bank could save itself at almost any point, and that the danger is rather of the extraordinary derangement which that effort would throw upon public affairs than that the Bank itself would actually stop payment. I speak with some doubt upon that point, but that is my impression.

1540. In what way do you think the Bank would have saved itself?—The Bank at that time held a very large amount of bills of exchange falling due daily, and the Bank might have refused to make any further advance whatever, and so have let those bills run to maturity. By this means the Bank would, day by day, have brought into its till a very large amount of money. The Bank, again, held a large amount of public securities; the Bank might have brought those public securities into the market for sale, at any extent of depreciation. What the effect of that might have been I cannot say; but I think that any reflecting person, conversant with the affairs of the Bank, and their connexion with the money market, will agree with me in saying, that the power of the Bank to

save itself at the last extremity, though at the expense of the public, is prodigious.

1541. You are acquainted with Mr. Gurney, the bill broker?—Yes.

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1544. If Mr. Gurney states as a fact, that when he went on the Saturday to the Bank for 200,000*l.*, and on the following Monday for 200,000*l.* more, he then stated to the governor of the Bank his conviction that if some relief were not at that time given by the Bank one-half of the bankers in Lombard-street would be forced to stop payment, he, Mr. Gurney, being in communication with all those bankers, and knowing the state of the demands upon them; and if he has further stated, that with no securities, however good, could money at that time be got in the money market; do you think, under those circumstances, that you could maintain that the Bank could have had the power of what is called righting itself by any operation upon the money market, unless Mr. Gurney's statement of facts should be wholly untrue?—I hope the Committee will allow me to answer their questions according to the best of my judgment, and to contribute any knowledge I possess as to facts, without reference to any criticism upon Mr. Gurney's statement or opinions. I have no doubt whatever of this fact, that the Bank of England held at the time a very large amount of bills of exchange falling due every day, and the Bank might have suffered those bills to run to maturity without re-advancing the amount to the public, and in that way have strength-

ened its own position. What effect that would have produced upon the public is a totally different question.

1545. But the effect it would produce upon the condition of the public is the important question to be considered, is not it?—Not if you consider what the object of this portion of the examination is. It is to test the correctness of my opinion that the Bank has the power of saving itself at the sacrifice of the public.

1546. Had not the operation of the Act of 1844, whether well or ill contrived, the effect of putting a restriction upon the Bank of England, and making its reserve as low as it is stated to have been at the end of October, at a time when its real power of meeting its notes in specie, supposing no such restraint to have been created as was created by the Act of 1844, was in fact upwards of eight millions sterling? In fact, therefore, was not the real limit done away with, and an artificial limit substituted for it, which artificial limit had the effect of producing intensity of distress at that moment?—I must again profess my utter inability to discuss this question, unless we proceed upon a complete separation between the management of the circulation and the management of the banking business of the Bank. The Act of 1844 undertook to issue to the public fourteen millions of notes, without any reference to the state of bullion, and in addition to that to allow the public to have any further quantity of notes that it chose to ask for, delivering bullion into the issue department against them. That being done, the Bank of England is left, like every other concern, to manage its affairs according to its own discre-

tion, and to make what use it thinks proper of that portion of the notes which comes into its possession. Under this state of things I think it is altogether incorrect to say that the Act has placed any restriction upon the Bank, or imposed any artificial limit on the amount of the circulation.

1547. What we are really inquiring into, is the wisdom and expediency of that very Act of 1844. We are not questioning whether the Bank was not under the necessity of putting those restrictions upon itself which it did, nor are we questioning the policy of the Government in relieving it from those restrictions, but we are inquiring as to the condition of the Bank of England as it was managed under the particular restraints of that Act of 1844. Was not the condition of the Bank under the Act of 1844 that of having an artificial restraint put upon it which was of a stricter and more confined nature than it would have been under, if it had been in the old condition of former Bank directions, having nothing to look to but its amount of specie in its coffers as compared with its liabilities?—The Bank under the old legislation had the power of issuing notes according to its own discretion, as long as there was any bullion remaining in the bullion department to meet them. Under the Act of 1844, the Bank has at its disposal fourteen millions of notes, and any further amount of notes equal to the amount of bullion which the Bank may place in the issue department. I really cannot state the case more distinctly than that. The practical result we know to have been, that during the pressure of 1847 there was a greater amount of notes in the hands of the public than during any previous period of pressure.

1548. You stated that the pressure was necessary in the early part of 1847, to correct the adverse exchanges. Now, will you turn your attention to this circumstance, that through the whole of 1847, with the exception of the efflux of gold to the United States of America, we were importing gold from every other part, and that, in point of fact, the influx, with the single exception of America, was greater than the efflux during the whole of the year 1847. Does not it appear, from the return before Parliament of the quantity of bullion bought and sold by the Bank, that in January there was bought, in round numbers, 48,000*l.* sterling, in February 293,000*l.*, in March 21,000*l.*, in April 85,000*l.*, in May 651,000*l.*, in June 198,000*l.*, in July 130,000*l.*, in August 156,000*l.*, in September 158,000*l.*, and in October 885,000*l.*, of gold; and that the only export of any consequence was that to the United States of America for food, which export to America ceased to be of any importance after the month of April. Does not that state of things show that this pressure, admitted to be distressing to trade, was not so necessary as you suppose it to have been for the purpose of correcting adverse exchanges?—I am not able to state whether the facts enumerated in the early part of the question are correct or not, but I am willing to assume that they are correctly stated; but that assumption does not in any degree in my judgment, invalidate the reasonings by which my previous answers have been guided. I apprehend that the influx or efflux of bullion is the simple fact by which the amount of the circulation ought to be regulated without reference to the consideration of the quarters

more or less in number to which that drain goes. If the circulation was a metallic circulation, the drain would, though it proceeded exclusively to the United States reduce *pro tanto* the metallic money of the country ; consequently it appears to me that it ought in the same degree to reduce the paper money of the country regulated upon a metallic basis. Why, it may be asked, does gold upon the balance go out of the country? No rational or scientific answer can be given to that question, except this, namely that such is the state of the circulation of this country compared with the circulations of other countries, that gold is a cheaper commodity for export than other commodities ; so long as that is the fact, it is necessary that a contraction of the circulation should take place for the purpose of reducing international trade to its only legitimate normal condition, a trade of barter. We were, at the time referred to, importing largely from the United States, and paying for that import, not by the barter of other commodities against it, but by the export of the precious metals. Some limitation must necessarily be put upon that course of things, otherwise the solidity of the monetary system would break down. For the purpose of putting that limitation upon the export of the precious metals, pressure is necessary, and therefore a legitimate and useful process. In connexion with America, there is a very striking occurrence, which took place in April, showing the practical working of that pressure, and the beneficial effects which it produced. At that time, when the whole community became alarmed respecting the condition of the monetary system, it was said, "Trying

and dangerous as our present position is, it must necessarily become much worse, for orders for the transmission of a considerable further amount of gold to the United States are at this moment actually out; a portion of that gold is absolutely on board the packets at Liverpool, and upon the remaining portion policies of insurance have been effected. Consequently, contract your circulation as you will, lower prices as you will, use every species of pressure that you can, two or three millions more of our gold we must at all events lose." That was the doctrine held at that time. However, the Act fortunately remained firm; and what was the result? The gold in the packet was taken out again and brought back into the vaults of the Bank of England. The policies upon the remaining portion were cancelled, and not one farthing of that gold passed out of this country. That was the effect of pressure, retaining a considerable amount of gold in this country which every body at the time declared to be absolutely irrecoverable. And what was the result of that? Why that our circulation was kept proportionably higher than it would have been if the pressure had been less and the gold had been permitted to go out of the country. I cannot conceive a fact more conclusively verifying every principle upon which the Act of 1844 is based, or more conclusively proving that firmness in maintaining the principles of the Act during a period of pressure, will in the end produce that result which always follows a faithful adherence to principle; viz. a diminution of the ultimate inconvenience and suffering.

1549. When did the transaction which you mentioned

of the landing of the gold take place?—I think it was in April. It was a transaction well known at the time, and universally commented upon.

1550. Are you aware that in April there was the largest export of gold to the United States of any month in the year?—I do not know. I do not at all know where the gold goes to. If it goes that is all that I ever attend to.

1551. The Bank, seeing that the gold was mainly and almost exclusively wanted for the United States, and knowing the object for which it was wanted, namely, for the import of food into this country, and seeing after the month of April that that efflux of gold stopped, and it being evident towards the end of the year that our harvest was a good one, and that therefore the great demand from America must cease, and the Court of Directors at the Bank having the power, not to look dryly at the figures, but to look at all the circumstances of the case, and all the probabilities of a future demand, might not they, with 8,000,000*l.* in their cellars have looked with indifference at the amount of specie which was going out, more especially knowing that, not having any other means of payment than specie, it must go out for the purpose of having that which the country could not do without, namely, a supply of food?—My previous answer, I think, is a sufficient reply to that part of the question which says, “knowing that the specie must go out.” I think I have shown that if the principle be rigidly adhered to, it is not so clear that the specie must go; it will go out only in proportion as pressure is relaxed. But the question, in

reality, raises the old point, whether the protection of the convertibility of the notes can be safely left to the discretion of any particular body?—It was left, under the former system, to the discretion of the Bank Directors, and the result was three periods of extreme alarm for the safety of the monetary system, in 1825, in 1837, and in 1839, accompanied with circumstances against which the whole community revolted, so that there was a common expression of determination that they would leave the monetary system no longer exposed to those perils. The Act of 1844 arose out of the universal recognition that the principle alluded to in the question had been tried three times and had failed, and failed with so many circumstances of supposed disgrace that they were determined that they would go on with that system no longer. The system of 1844 was resorted to as a substitute; and the result is, that at a period in which the combination of circumstances to try the solidity of our monetary system was unexampled, that system has come out perfectly intact, and the convertibility of the notes has been amply protected; under all those circumstances, we have never been with less than eight millions of bullion in our coffers. But the question proceeded further to make the remark that the Bank ought to have done a great deal more, in consequence of its having eight millions of gold in its coffers. I would observe that it was the having eight millions in its coffers that enabled the Bank to do as much as it did for the assistance of the public, because the eight millions of gold so retained in the issue department are represented by notes at the disposal of the Bank. It was the com-

mand of those very notes, representing the eight millions of gold, which enabled the Bank at that time to hold 31,000,000*l.* of securities, an amount of accommodation to the mercantile world which never was given upon any previous occasion, and the power of giving which is one of the results of the protective provisions of the Act of 1844.

1552. You have alluded to the circumstances under which the former system of discretionary power by the Bank failed with disgrace. To what periods do you allude in referring to that?—I allude to the years 1825, 1837, and 1839.

1553. At that time was there any suspension of the payment of the notes of the Bank of England in gold?—There was no actual suspension, but there was a universal apprehension of our being at the very edge of the precipice.

1554. Do you think that having got through those difficulties, even the being at the edge of the precipice was more disgraceful to the system than then existed, than the absolute necessity of departing from the system of 1844, which occurred in October, at the period when the letter of the First Lord of the Treasury and the Chancellor of the Exchequer was issued?—Perhaps the term “disgraceful,” had better be struck out of the matter altogether. The discredit which was supposed to attach to the proceedings upon the former occasion, had more particular reference to the feeling which arose in consequence of the Bank of England having obtained assistance (though I believe it was hardly fairly to be so described)

from the Bank of France. But I apprehend that no discredit whatever attaches to the Act of 1844, in consequence of the issue of the Government letter of October last. It seems to me that the issue of that letter arose out of one of those peculiar combinations of circumstances which may occur occasionally in a community of prodigious activity and enterprise, carrying on trading operations upon a gigantic scale, and by means of an extended system of credit. You cannot build up in this country an enormous and complicated system of credit, without being occasionally under some very peculiar and extraordinary combination of circumstances, exposed to the possibility of panics seizing the public mind, which cannot be regulated by any systematic legislative provisions, but which must be met according to the exigency of the moment by some extraordinary and exceptional measure. I see no disgrace in that. I see nothing discreditable in that. I see nothing invalidating the principle of the Act, or tending to show that the provisions of the Act are inefficient for their intended purpose.

1555. Comparing two separate systems of banking, or any thing else, and comparing their action at different periods, and finding that the one, although it may have been attended with difficulty and risk, has not been departed from, but that the other was rendered practicable only by an entire departure from and an entire cessation of the application of its principle; do not you think that that experience tends to throw a certain degree of discredit or want of reliance and confidence, upon the

principle from which we have been obliged to depart in the time of trial?—The whole of these remarks proceed entirely upon the old fallacy of blending banking and management of the circulation together. The Act of 1844 was passed for the purpose of securing the convertibility of the notes, without reference to banking operations; that object it has effectually accomplished. I think that object ought to be kept entirely distinct from any reference to banking operations. Now, when we look at the banking operations, we find that under such peculiar circumstances as occurred in the autumn of last year, there suddenly arose a feeling of panic so general and severe, that the ordinary banking operations of the country were seriously impeded, and under those circumstances, the Government intervened and authorised an issue of Bank notes, which had no reference to the state of the bullion, and the sole object of which was to arrest the panic by a sudden and bold interference.

1556. The question was not intended to raise the point with regard to separation or non-separation; the question was simply directed to this point, that in October 1847, there was a necessity for an entire departure from the principle of the then existing law?—I do not admit any such departure from the principle of the law.

1557. Was the letter of the Chancellor of the Exchequer consistent with the law?—It was inconsistent with the letter of the law, but not inconsistent with the principle of the law.

1558. Then there is nothing inconsistent with the principle of the law in letters of that description being

resorted to, from time to time, as circumstances require?—
—It depends upon the character of the circumstances under which they are issued.

1559. Assuming that the Act of 1844 is to continue to be the law of the land, and assuming that it is necessary that a discretion should from time to time be exercised, under possible circumstances, to suspend the action of that law; in what way are you of opinion that that discretion can be most safely lodged, with the view to insure as little as possible a departure from this statute?—I think it important to render a recourse to the suspending power extremely difficult, and such as will be resorted to only under the last and most extreme necessity. I think that by leaving the Government to do it upon its own responsibility, and as a violation of an existing Act of Parliament, we obtain a better protection against too easy and ready an exercise of the power, than by lodging the discretion with any other parties.

1560. . What difference existed between the two periods of April and October, which makes the argument which you use in justification of the letter in October, not applicable to the former period of April?—In April the adverse state of the exchanges was barely rectified; a slight cause would again have turned them against us. But in October, they became clearly and decisively in our favour.

1561. Do you think that the state of the exchanges is that which ought to guide the discretion of the Government, with reference to the issue of a similar letter of relaxation?—I think it would be impossible to issue

such a letter with safety, unless the exchanges were in our favour, and decidedly in our favour; it does not follow that the mere fact of their being in our favour would justify the issuing of the letter.

1562. But if they are in our favour, and there exists at the same time a degree of pressure, you think it advisable that this relaxation should be allowed?—I think it very inadvisable to issue such a letter, unless under the most extreme necessity, and as a remedy for a state of things which is altogether out of the ordinary course.

1563. At what period of pressure do things become not amenable to principle?—When the actual conduct of parties becomes such that you cannot bring it under the test of any ordinary principle. When people act not from any reasonable motive, but under the blind influence of panic, I consider their conduct as not amenable to principle.

1564. In your evidence in July, 1840, it is stated, in perfect consistency with what you have stated now, that “almost in any extremity of the state of bullion, the Bank of England has means within its power of producing such an action upon the public, as shall be sufficient to stop the foreign drain; but the difficulty is, that if it allows the bullion to get to a low point, the action to stop the foreign drain must then be very sudden, and of a nature very severe and ruinous to the commercial community; also, there is great danger with such an action, of exciting an internal demand; and when once the internal demand is raised, there is no principle upon which you can stop that.” Referring to that evidence,

and to the observation you have now made, that the cases in which pressure arises are not amenable to principle, does the one explain the other, and show that those cases not amenable to principle, are cases of domestic demand?—The remark quoted from my former evidence, had reference to an internal drain for bullion. I apprehend that the discussion which we have lately been carrying on, has had reference to what is called an internal drain (though, as I stated, I think unhappily so called) for Bank notes. They are two totally different things.

1565. In October, 1847, it was not a drain for bullion in your sense of the word, but it was an internal drain for Bank notes, or for money?—In October, 1847, there was some though not a powerful drain for bullion; there was also a pressure which diminished the efficiency of the existing circulation.

1566. Whenever that takes place, and the circulation becomes insufficient, do you think it advisable that a relaxation should take place?—No; I do not state that. It is a question entirely of degree. I think that a relaxation ought only to take place in the last extremity, when the inconvenience arising from the pressure has produced all its legitimate effects in rectifying the exchanges, and the danger of general confusion has become imminent.

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1573. Upon the whole, you would prefer that the power of relaxing the Act (of 1844), should not be vested anywhere by law?—Certainly not by law.

1574. You have stated that, in the present instance, the interference was proper, and absolutely necessary. Therefore, if Parliament were to make no provision at all, and give no authority for it anywhere, and yet the thing must in cases of great distress be done, would not that leave the law in a very awkward position?—I apprehend that that is the state in which we are left with respect to almost all our laws. It is perfectly known, that circumstances may arise which will impose upon the Government the duty of taking upon itself the responsibility of suspending the action of any law whatever. I think, not long ago, Lord John Russell stated distinctly in one of his public speeches, that he should not scruple to violate the law if public necessity required it.

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1576. Do not you think that if the discretion is only to be exercised under circumstances so extraordinary, it is almost impossible to anticipate them by legislation?—The circumstances under which it would be necessary to exercise the discretion cannot be defined beforehand. There is also this difficulty; the very knowledge that such a measure may be resorted to, tends to check the introduction of the natural and proper correctives. Therefore, though you cannot altogether get over the difficulty, I think it is obvious that the true policy is, to do nothing that shall in any way whatever strengthen the feeling in the public mind, that under pressure they will have this relaxation; for in proportion as they anticipate it, in the same degree will they abstain from the proper and natural correctives; and to whatever degree they abstain

from resorting to those, in the same degree the ultimate pressure will be augmented.

1577. Do you not believe that if the same occurrences took place next October, the public would believe that a relaxation would take place?—That I consider to be the great evil connected with the issuing of the letter. You have had all the benefit of the letter, and you know what that benefit is, but you have yet to experience the evil consequences that must arise from it. It was on this account, I stated that though I admit the necessity of issuing the letter, yet I make that admission with the deepest regret.

1578. Do you think that the evils of such an expectation would be diminished by making the issue of such a relaxation easy?—No, quite the contrary. I think it is of the highest importance that you should make the issuing of such a letter again as difficult as it is possible to make it, short of rendering it impossible.

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1582. Does not the correction of the foreign exchanges depend upon the activity of our own trade, and our means of exporting our manufactures and produce to the rest of the world?—The state of the foreign exchanges is no doubt closely connected with and dependent upon the balances of trade, including in that term trade in public securities as well as in commodities. In its transmission from country to country, bullion is to be considered as a commodity. It is transmitted from one country to another, only because it is a cheaper mode of making a payment than other commodities; and in propor-

tion as it is transmitted, the quantity in the country from which it goes is diminished, and that diminution in quantity raises its value, and renders some other article a cheaper means of making a foreign payment.

1583. But the power of the country to command its share of that commodity, gold, depends upon the active prosperity of its own commerce and its productions?—I apprehend the principle is this, that in determining the normal state of the distribution of the precious metals, the relative activity of the productive power of different countries is the regulating circumstance; but when you come to temporary fluctuations of the precious metals between two countries, then other circumstances may become predominant in regulating them.

1584. Does not the distress created in our manufacturing districts, the stoppage of business in some of them, and the difficulties imposed upon all of them by monetary derangement, paralyze the means of the country for the restoration of the balance of the precious metals?—That question seems to me to confound the effects of variations in the amount of circulation, with the effects of variations in the amount of capital. Monetary derangement arising from variations in the amount of our circulation, will never go to any extent in paralyzing the trade of the country, or stopping the productive power of our manufactures. It is want of capital which alone produces these serious effects. What really produced a derangement of trade and stoppage of transactions in 1847 was the loss of capital, and the diversion of capital to other than trading purposes.

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1587. You are aware that manufactures suffered considerably by the monetary derangement of last year?—I must again repeat the distinction that I draw between monetary derangement and derangement of the capital of the country. The manufacturing operations of Birmingham and Lancashire were seriously deranged last year, as were all the trading operations of the kingdom; but that derangement was the result of a great loss or diversion of capital. It is impossible for a country to suffer in its harvest, as this country suffered in 1846, thus losing an important part of its wealth, and also to have capital drained from its trading operations to a large amount, as was the case during the last two years, without being seriously inconvenienced by it. Persons attribute this inconvenience to monetary derangement, but the monetary derangement was one of the inevitable effects of these circumstances, and not one of the causes.

1588. The operations carried on at Birmingham and at Manchester are so carried on by a mixture of capital and credit, are they not?—Credit is a means of carrying them on, because credit is a means of obtaining another man's capital.

1589. Is not the business of Manchester, in fact, carried on partly by capital and partly by means of other people's capital, by means of credit upon bills?—The trade of Lancashire, like every description of trade in this country, is carried on by capital, that capital being partly the property of persons immediately engaged in the trade, and partly borrowed by them from other persons

through the medium of credit. An interruption to credit is an interruption to the facility of so borrowing other people's capital to carry on trade.

1590. From your experience can you state, taking a manufacturer with 20,000*l.* of capital, what amount he would use in his operations in the shape of credit?—Supposing he starts with 20,000*l.* worth of capital, what extent of business could that man carry on by using credit in addition to his capital?—That question admits of no definite answer. It depends upon a thousand uncertain circumstances. It depends not only upon the capital, but upon the character of the man, and also upon the prudence of those who trust him.

1591. No person is better able to give an opinion, necessarily a speculative opinion, upon it than yourself, as to the extent to which credit comes in aid and in support of the actual capital of the country in the great manufacturing districts. Can you give the Committee any notion of that?—If I understand the meaning of the question rightly, it is this: what proportion of the trade of the country is carried on with capital belonging to the persons who actually use it, and what proportion with borrowed capital? I think it is impossible to answer that question.

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1596. Has not there been in the manufacturing districts a stoppage and derangement of business consequent upon the monetary distress of last year?—There is no doubt that during last year the extent of trading transactions was greatly contracted. Diminution of trading capital, in consequence of bad harvest and other circum-

stances, was the cause which produced both monetary distress and diminished activity in production.

1597. And consequently, that the deficient export of our own manufactures must have prevented, to a certain extent, that influx of bullion from abroad which might have assisted the position of the Bank?—Monetary distress tends to produce fall of prices; that fall of prices encourages exports and diminishes imports; consequently it tends to promote an influx of bullion. I can quote a fact of rather a striking character, which tends to show that a contracting operation upon the circulation tends to cheapen the cost of our manufactured productions, and therefore to increase our exports. The very morning that the suspensory letter of the Government was issued, I received a private letter from a person of great importance in Lancashire, to this effect:—"I do not know whether you have any influence with Her Majesty's Ministers; but if you have, let me implore you to entreat them to be firm in maintaining the Act,—to be firm in resisting these applications for relaxation. All the manufacturers in Lancashire are now struggling to resist the improperly high price of the raw material of cotton; and in support of that effort all the operatives are starving themselves by working short time; if any relaxation is given, they will be in a state of exasperation at the improper interference of the Government, by which the high price of the raw material will be supported, and manufacturing industry checked." That letter reached me the very morning that the letter of the Government was issued, and almost immediately the raw cotton rose in price.

1598. The writer of that letter was probably a man of considerable substance, a very wealthy man, with abundant capital to carry on his business? He had recently retired from business. I can state another circumstance that occurred in London corroborative of the same results. Within half an hour of the time that the notes summoning the Court of Directors of the Bank specially on the Monday morning were issued, parties, inferring probably from that fact that a relaxation was about to take place, sent orders to withdraw goods from a sale which was then going on; the goods being such as would probably have been bought for foreign export. Those circumstances show most strongly the corrective influences which arise from monetary pressure, and the difficulty of foreseeing all the inconvenient consequences which may arise from interference.

1599. The opinion of that gentleman in Lancashire must have been, that that distress for credit and capital in Liverpool was really, instead of being an injury, a great benefit to the manufacturing interests of that part of the world, inasmuch as it checked the price of raw cotton at Liverpool?—The opinion went undoubtedly to this, that monetary distress has a general tendency to throw down prices, and that the fall of the prices of raw materials encourages manufacturing production, and tends to increase our foreign exports. He looked to the interests of the manufacturers, masters and operatives. The master manufacturers and labourers wanted to extend the market for their productions by the increase of our foreign exports, which had been checked by the high price of the raw material of cotton, which high price of the raw material

of cotton they conceived to be the result of combination and speculation at Liverpool, and which speculation they expected must have broken down if the Government had not interfered. The Government did interfere ; and undoubtedly the effect was an immediate rise in the price of raw cotton.

1600. You stated that that was a letter from a gentleman who had retired from business ; had you the same information from any persons actually engaged in business ?—It was, I believe, the common impression of the manufacturers in Lancashire.

1601. You believe it to be the general opinion of the manufacturers in Lancashire, that the monetary pressure upon them during the last year has in reality been no injury, but rather a benefit to them ?—I have not stated that. I believe the fact to be that the opinion of people in Lancashire upon the propriety of issuing that letter was extremely divided, and divided upon a principle very obvious. All parties interested in upholding the prices of raw materials or imported articles, would naturally approve of a measure which facilitated that result, whilst the consumers of those articles might as naturally take a different view of the question.

1602. You are aware that reports are made to Parliament annually by the Inspectors of Factories in those districts. One of those inspectors, Mr. Saunders, a person probably wholly unconnected with manufactures himself, made a report last year to the Government of the state of things in the manufacturing districts, and in his report there is this observation : “All the Sub-Inspectors refer,

as the principal cause of the present depression in trade, to the state of the money market, and the impossibility that any branch of business can afford to pay a discount of eight per cent. for the cash necessary to carry on the business." Are you of opinion that that gentleman, who lives amongst those manufacturers and inspects them, and all the Sub-Inspectors, are mistaken as to the operation upon the manufactures of the monetary disturbance of the past year?—I think that in the passage quoted, the distinction between the want of money and the want of capital is not sufficiently alluded to.

1603. Are you aware that Mr. Saunders is in no way connected with the district of which you spoke before, that his duties are entirely exercised in the manufacturing districts of Yorkshire?—I have no knowledge of the sphere of Mr. Saunders' duties. The fallacy which pervades the passage in question is, no doubt, very common. Persons of station and authority have countenanced the doctrine that the high price of money stops all trade and ruins every thing; but if they would look further, and ask what is the cause of the high price of money, they would find that it is the want of adequate capital, and they would have no difficulty in seeing from what causes that want of capital has arisen.

1604. Supposing you had the evidence of a Birmingham banker, who stated that a manufacturer applied to him for assistance to execute a foreign order, which he represented to be a very advantageous one, and that the banker said, "I will assist you, but I must have eight per cent. interest;" in reply to which the manufacturer said

"I cannot pay any such interest, for that would absorb the whole profit I shall make upon the execution of the order;" if such evidence as that were produced before this Committee, would not that have weight with you in confirmation of the opinion that the distress for money in the last year has extensively injured all the manufacturing interests of the country?—No. I should proceed to analyze that statement, and to look a little deeper into it, and I think I should soon come to the conclusion that, finding no diminution of the Bank notes with the public, the distress for money must be the result of a distress for capital; that, in fact, the high rate of interest and the depression of the manufacturing interests, was the necessary result of the diminution of the national capital applicable to manufacturing and trading purposes.

1605. But you admit that there has been an increased rate of interest for capital through the year?—The facts respecting the rate of interest are perfectly notorious. There was an increased rate of interest through the greater part of the year.

1606. Must not the efforts of houses, such as you have described to exist, to extend their system of credit, with little or no possession of capital, be always ultimately attended with injurious effects to houses possessed of capital, and extending their credit only in proportion to their capital? If credit be extended too boldly there will be periods when that credit system, being subjected to severe trial, gives way; and, as a necessary result, the general state of confidence is disturbed, and even the provident trader experiences considerable inconvenience.

1607. So that a person possessed of capital, however prudent he may be, is not safe from the possible effects of speculations undertaken by persons possessing little or no means, and carrying on their speculations without reference to their means?—When a period of confusion arises from the breaking down of a system of undue credit, those who have traded, even upon sound principles, are exposed to inconvenience, more or less, according to circumstances.

1608. You have been very much questioned as to your opinions upon the subject of the issue of the Government letter; but it has been assumed all along in the course of your examination, that that letter was a simple relaxation of the power of the law as affected the Bank's issue of paper: but you are aware that that permission was accompanied by another condition, which was a great security upon the exercise of it?—Undoubtedly the letter would have been a most dangerous measure if it had not been accompanied with an absolute restriction as to the rate of interest.

1609. You are decidedly of opinion that, unless the Government, in issuing that letter, had accompanied their permission to make advances with a very considerable restriction upon the rate of interest at which those advances were to be made, that letter would have been an extremely dangerous step?—A most dangerous step.

1610. You said that it was a matter of notoriety that the variations in the rate of interest in last year had been very considerable. Can you state what they were in relation to the anterior crises in 1837 and 1839?—I cannot give a precise answer to that question. The rate of

discount upon bills of exchange taken alone is not a fair standard by which to measure the variations in the value of money during the different crises. Under the former crises the influence of the usury laws was in operation; not actually in 1837, but the operation of the usury laws upon the habits of the community with reference to the discount of bills was not then worn away. Therefore the rate of interest upon bills of exchange is not a fair comparative standard for those different periods. You should look at various indications; you should look at the comparative extent of the fall in the public funds; you should look at the fluctuations in the price of exchequer bills; you should inquire at what rate money was raised in the stock market; you should combine all those results together before you can correctly estimate the comparative variations of the different crises.

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1614. Is not the fluctuation in the discount of mercantile bills, a fluctuation which most immediately affects the manufacturing interests of the country? — There again it becomes necessary to pursue the subject to the bottom, because the fluctuations in the rate of discount upon mercantile bills were checked formerly by the diminished power of resorting to the discount of mercantile bills. Many parties probably in 1847, got their bills discounted by paying a high rate of interest, who on former occasions would not have got their bills discounted at all.

1615. You mean that they were checked by the usury laws?—And by the effect produced upon the habits

of the country, even after the laws ceased to be in existence.

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1617. When you were examined upon this subject in 1840, you stated truly, that the "rate of interest in France is a great deal more steady than it is in England;" and you stated, that there were two circumstances to account for that: "first, that the currency of France may be considered as virtually a metallic currency; that consequently all oscillations in the rate of interest which arise from an unnatural state of the currency in any other country are avoided in France:" and that there is less commercial speculation. Was not the object of the Act of 1844, to produce an equality of value between the paper and the gold which it represented, and to make it vary in the same manner as a metallic currency would have varied?—Undoubtedly.

1618. You conceive that operation to have succeeded?—Yes.

1619. Then would not the consequence of that be, as far as the steadiness in the rate of interest in France, was produced by the greater proportion of its metallic circulation, to have brought the rate of discount in England to a steadier amount after the passing of that Act of 1844 than it had been anteriorly?—I apprehend that the effect of the Act of 1844, was to remove whatever fluctuations, either in prices or in the rate of interest, had occurred from bad regulation of the paper circulation previously; meaning, by bad regulation, fluctuations in the amount of paper money which would

not take place in the amount of metallic money; but I conceive, that the fluctuations in the rate of interest in France, are much more attributable to the limited extent of their credit system as compared with England. In speaking upon the subject, I should state that I have no particular connexion with France, and no practical experience of the monetary operations of that country; but there is a short passage upon that subject in a pamphlet recently published by Mr. Hubbard, a very intelligent merchant, largely engaged in exchange transactions, and a Director of the Bank of England, which I am glad to quote in support of my own opinion. He says, "The commercial interests of England have suffered so much more than those of her neighbour, because her credit system is so much more extended." I perfectly concur in that opinion.

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1633. You consider that the market rate of interest should be determined by the value of capital, or the extent of profitable employment to which it can be put?—Certainly, by the relative proportion of supply and demand.

1634. Is not it determined by two practical causes; first of all, the use and application of capital to profitable purposes; and, secondly, its application to relieve any distress and pressure that may be artificially created?—Now, we see in these returns before the Committee, that the Bank have varied their interest at different periods from one and three-quarters per cent., in October 1844, to nine per cent. in January 1848; and the Committee

have had evidence that the Bank has actually demanded ten per cent. from persons applying to it with the best possible securities. Now, do you consider that the business of any great commercial country can ever be properly carried on, with a variation in the rate of interest between one and three-quarters and ten per cent.?— I apprehend, in the first place, that the Bank of England has not the power of controlling the rate of interest; that if circumstances occur naturally producing very violent fluctuations in the rate of interest, the Bank of England, like everybody else who has money to lend, must conform to those rates. The Bank of England is in no way whatever responsible for those rates; and if it were to attempt to control them, the effect would be to make the variations much greater. To the second part of the question, whether the commerce of the country can be carried on under such fluctuations of interest as those described, I answer, without the slightest hesitation, yes. I have no doubt whatever, that, notwithstanding such fluctuations as those which have actually occurred in this country, the commerce of this country will continue to prosper. I have no doubt that the commercial prosperity of this country will be restored, and even be placed on a firmer foundation by the events of last year. I answer further, that such fluctuations of interest do take place frequently in the most prosperous commercial countries in the world. If the Committee will refer to the published monthly circulars respecting the rate of interest in the United States during the last year, they will find fluctuations much greater than that; yet the commerce of the

United States, there is not the smallest doubt, has been and will be carried on successfully. If the Committee will refer also to Hamburgh, they will find that it is precisely the same there; and I believe they will find that in Holland also, though not to the same extent as in the United States and at Hamburgh, great fluctuations in the rate of interest periodically take place.

1635. Are you aware that in Hamburgh, there is no public Bank of discount whatever?—I am aware that in Hamburgh there is no bank which advances its own capital or that of its depositors, on the discount of bills of exchange.

1636. Are you not aware that no banks in the United States ever discount otherwise than at legal interest; that though there may be a higher rate of interest charged elsewhere, yet that in fact, none of the banks in the United States can by law discount otherwise than at their legal interest, which legal interest does not exceed six per cent.?—That fact, in all probability, may be connected with and tend to account for the very great fluctuations of the rate of interest in the United States. It seems to me to verify what I stated, that the attempt to restrict artificially the rate of interest will produce greater fluctuations.

1637. You say that the Bank of England has no power to influence, and does not influence, the rate of interest?—I mean that the Bank cannot exercise any real permanent influence upon the rate of interest, making it higher or lower than natural circumstances would determine. Of course I do not mean to say that if—the

usual rate being now four per cent.—the Bank to-morrow were to say, “we will lend money at three per cent.,” that would not have the effect of lowering the rate of interest temporarily for a short time. The effect would be largely to increase the demands upon the Bank, which the Bank could not long continue to meet at that rate.

1638. Do not you suppose that a great bank, such as the Bank of England, with a large capital, with large deposits, both private and public, and with an exclusive power of issuing paper in London, and having its notes a legal tender all over the country, does not, in fact, regulate, in a market like that of London, the rate of interest, by occasionally offering capital at one and three-quarters per cent.; and when that capital so offered at a low interest has been taken by the public, and credit largely founded upon it, has not the Bank then the power, by restricting its facilities, just to put what extent of interest it pleases upon the public?—I apprehend that the rate of interest is really the rate which borrowers are willing to pay for the loan of capital, and that nothing can really and effectually alter that rate, but that which alters either the supply or the demand. The Bank of England, so long as the amount of its advances remains unaltered, has no power of arbitrarily regulating the rate of interest. If the Bank of England, being largely possessed of capital, choose to say, “we will cease to lend any capital, we will hoard it in our own cellar, unprofitably to ourselves and to others,” they might raise the rate of interest by abstracting loanable capital from the public market. As long as the Bank fairly employs the means at its com-

mand, the Bank has no power of regulating the rate of interest; that is determined by the proportion between the supply and demand of loanable capital.

1639. Is not the rate of interest completely arbitrary, when the Bank has to deal with a merchant who has engagements to pay, which he cannot pay otherwise than through the facility which he asks from the Bank? Can not the Bank, in those cases, command almost any interest that they please to ask?—Undoubtedly not. There is sufficient competition on the part of other lenders to keep the Bank of England comparatively in order in this respect, and to reduce the Bank to the ordinary character of a competitor in the public market. We have often known the market rate of interest to be above the Bank rate, and often below the Bank rate; a clear proof that the Bank cannot regulate the rate. If the Bank has the power of regulating the rate of interest, why does it ever consent to make advances at the low rates mentioned in preceding questions?

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EXTRACTS

FROM

THE EVIDENCE

OF

SAMUEL JONES LOYD, ESQ.,

BEFORE THE

SELECT COMMITTEE OF THE HOUSE OF COMMONS

ON

COMMERCIAL DISTRESS

IN 1848.

THE Committee on Commercial Distress, which was appointed on the 3rd December, 1847, consisted of the following Members, viz. :—

Mr. Chancellor of the Ex-
chequer (Right Hon^{ble}.
Sir Charles Wood).
Sir Robert Peel.
Mr. Cobden.
Mr. Herries.
Mr. Cayley.
Mr. Labouchere.
Mr. Disraeli.
Mr. Glyn.
Mr. Home Drummond.
Sir James Graham.
Mr. Thomas Baring.
Lord George Bentinck.

Mr. Beckett.
Mr. Alderman Thompson.
Mr. Hudson.
Mr. J. L. Ricardo.
Mr. James Wilson.
Mr. F. T. Baring.
Lord John Russell.
Mr. Spooner.
Mr. Goulburn.
Mr. Cardwell.
Mr. Hume.
Mr. Thornely.
Sir William Clay.
Mr. Tennent.

SAMUEL JONES LOYD, Esq., called in and examined,
9th May, 1848.

5108. *Chairman.*]—Will you have the goodness to state to the Committee, what, in your opinion, was the condition of trade throughout the year 1846?—The general impression with regard to the state of trade in 1846, was that it was in a sound and satisfactory state; at the same time, among reflecting persons, there was an impression that the railroad speculation had been carried to a very undue extent, and that some serious consequences must therefore ensue; and there was also a feeling that the long continued influx of the precious metals must sooner or later, and probably at no distant period, be followed by a corresponding action in the opposite direction; under this impression the deficiency of the harvest, when it was ascertained, became a subject of serious consideration.

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5110. Did you entertain much apprehension from the great speculation in railways?—I certainly thought that the demands which the railways were making upon the capital of the country were carried to an undue extent; at the same time I felt that the capital of the country was very large, and that I could not say beforehand what demand of that peculiar kind it could properly sustain.

5111. So far as your opinion then went, did you apprehend any danger from the railway speculation, sup-

posing it had not been followed by the failure of the potato crop and other circumstances?—I thought that the demand for railways would certainly sustain a check of some importance, but that the extent of that check, and the inconvenience connected with it, would depend upon other accidental circumstances that might or might not attend it.

5112. I observe that you have not stated that there was any great speculation in other branches of trade; do you believe that there was any great excitement in other branches of commerce?—I do not think that speculation was carried to any undue extent at that time.

5113. Perhaps you will state to the Committee what are your views of the causes which produced those difficulties of 1847?—I apprehend there can be but one opinion upon that subject, viz., that the pressure which occurred in 1847 is attributable to the heavy demand upon the capital of the country, arising from the deficiency of the harvest and the large amount of provisions suddenly imported in consequence, and that the pressure was further aggravated by the failure in the supply of raw materials, both of cotton and of wool, from which our means of making foreign payments were to arise; and by the large abstraction of capital from mercantile and trading pursuits, for the construction of railways.

5114. You attribute the difficulties then, principally to the failure of the potato crop?—The failure of the potato crop, with the other accompanying circumstances; I mean the failure of the potato crop, and of the harvests of Europe generally.

5115. Have you made any sort of estimate of the amount of drain there was upon the country in consequence of the failure of food?—I have always understood that there was at least 30,000,000*l.* sterling of provisions imported into this country during the year 1847, and, in addition to the large increase in the import of provisions, there was a very remarkable increase in the import of other commodities, especially excisable commodities, which was supposed to be caused by the large wages given to persons employed upon the railroads.

5116. Are you of opinion that the difficulties of the year 1847 arose from the Act of 1844?—No; I think that the pressure of 1847 would inevitably have occurred from the circumstances already alluded to, whether the Act of 1844 had been in existence or not, and that the Act of 1844 had nothing to do in the way of creating that pressure, or in aggravating or increasing the pressure, but rather the reverse.

5117. You say that in your opinion the difficulties were not created by the Act of 1844, but rather the reverse; will you have the goodness to state what you mean by rather the reverse; in what way do you suppose that the operation of the Act of 1844 was rather to mitigate the difficulties than to increase them?—I think that if the Act of 1844 had not been in operation, in addition to the difficulties which then existed, we should have had the further difficulty of a serious alarm with regard to the safety of the monetary system; on former occasions we had always found that the measures necessary to meet the difficulty had been postponed until the bullion had been

brought to so low an amount that a very great apprehension with regard to maintaining the convertibility of the note pervaded the public mind. I think the Act of 1844 prevented the occurrence of that feeling in the year 1847, and therefore prevented the alarm which would have arisen in connection with that feeling.

5118. You consider that the Act of 1844 secured the convertibility of the note?—Yes, most effectually.

5119. And prevented any panic with respect to the stoppage of the Bank?—Yes.

5120. A possible danger has been stated to the Committee to which I wish to call your attention. It has been stated to the Committee, that in case the Bank had stopped in the banking department, supposing the reserve had been worked out, such alarm would have been created that there would have been an immediate run for gold from all quarters; and that it was not unlikely that great danger would have arisen of the Bank not being able to convert its notes into gold; will you have the goodness to state to the Committee whether you think such an event was possible or probable?—Of course a supposition of that sort may be made, and it is impossible for any person to say whether it would have occurred or would not have occurred. The only remark that can be made is, that that is a danger which might occur under any system for the management of the circulation that has ever been suggested, or that can possibly be suggested. The management of the circulation under the Act of 1844 seems to me to provide the best palliative against that supposed danger, and to render the occurrence of it less probable

than under any other management, and also, in case it occurs, to leave the country in a better state to meet it. The supposition of an alarm with regard to the convertibility of the note, of course must arise from the apprehension that the bullion is drained too low, and that the public think it is an insufficient amount. Now it is the very purpose of the Act, and it is proved by the result to be the effect of the Act to guard against that possibility; the bullion cannot, under the Act, be drained so low as to afford any plausible ground for apprehension of the convertibility of the note, and therefore I think that under the Act of 1844 the supposition put is least likely to occur; and also, if it did occur, the very fact that the Act has preserved a large amount of bullion, places the country in a more advantageous position to meet such a run for gold, and to prevent any fatal consequence arising from it.

5121. You were speaking of the operation of the Act of 1844; let us take the operation of the Act in prosperous times; what do you consider its effect was at those times?—I do not think the essential properties of the Act are called into action until there is a pressure from a drain of gold; the object of the Act is to protect the convertibility of the note under all circumstances, and therefore of course its efficiency is not tried till the store of bullion which is to protect the convertibility of the note is exposed to some degree of pressure. There were incidental arrangements in the Act, which were of great value; such, for instance, as placing a fixed limit on the amount of country issues; I also regard the separation of the depart-

ments as most important, and the publication of the accounts of the Bank, which rendered the real operation of the Act more intelligible to the public, and I think prepared them to meet the difficulties of the year 1847.

5122. As regards the issues of private banks, do you consider that the operation of the Act in a time of prosperity was of any considerable service?—I think the provision of the Act which placed a fixed limit upon the issues of private banks was of very considerable value, especially during the period when the railway speculation had the firmest hold upon the public mind; the provisions of the Act which prevented country banks from increasing their issues beyond a fixed limit at that time, materially prevented a further extension of that speculative spirit which, if it had been fomented by the increased issues of country banks, might have gone on to a most serious extent.

5123. You, in the course of your business, must have been cognizant of former periods of prosperity; do you, on comparing the conduct of those country banks during the years 1845, 1846 and 1847, with their conduct in former years, think that they have acted more prudently in the last three years than they did upon former occasions with regard to their issues and their conduct generally?—I think, if you contrast the proceedings of the country banks of England generally, during the years 1844 and 1845, with their proceedings during the years which preceded the year 1825, the contrast is decidedly in their favour in the latter period.

5124. Would you attribute that to the operation of

the Act?—So far as regards the management of their issues, I attribute it to the Act.

5125. Do you consider that the Act had a considerable effect in making them more careful in their conduct than they had previously been?—I think it very fair to assume that, in addition to the effect which it had with regard to their issues, it had an indirect effect in producing a limitation in their proceedings with regard to their general banking operations; it is, no doubt, difficult to prove that, but such is my impression.

5126. When the Act was brought in, I think there was an impression, upon the minds of some parties at least, that the operation of the Act would tend to mitigate those convulsions when they came on, even supposing it was impossible that that Act, or any Act, could prevent them; there was an impression that they would be of a less sudden character than they were before; was that your expectation?—My expectation was, that the Act would mitigate that portion of commercial pressure which was justly attributable to the mismanagement of the circulation; and the only point upon which any difficulty could exist was in determining what portion of the pressure of the different crises had really arisen from the mismanagement of the circulation, and what portion had arisen entirely from the ordinary excess of mercantile enterprise. I think the Act has completely realised all that was reasonably expected of it, and has verified every principle upon which it was established; I think that the pressure of 1847 would have been considerably more severe, postponed probably to rather a later period, but

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IN 1848.

rical amount of notes. Those two accidents gave to the contracting operation of the Act a character of more suddenness than it would otherwise have had. I think it is not improbable that on the occurrence of another period of pressure from other causes, the course of proceedings may be different, and that you may have a gradual contraction of the numerical amount of the notes with the public; but it seems to me of secondary importance in which form the provisions of the Act come into operation; for in either form they are now proved by experience to be perfectly efficient for their intended purpose, viz., the effective protection of the convertibility of the Bank note.

5128. You stated as one of the accidents, as you call them, the failure of commercial houses; do you mention that as an extraordinary accident, or is it not one of those circumstances that will naturally happen in time of difficulty?—That depends entirely upon whether that time of difficulty comes upon a state of trade which, when pressed upon and tested, proves to be unsound; it did not occur in that form in the year 1837 or 1839. In the year 1837, there were the failures of American houses, but those failures were confined entirely to the American trade, and though there was a serious pressure upon the rest of the mercantile world, they stood their ground, and the consequence was, that that pressure did not assume that character of alarm which it assumed in the year 1847. In the year 1839, there was a severe pressure, but it was unaccompanied with extensive mercantile failures.

5129. You speak of the mismanagement of the Bank

as one accident; when you speak of the mismanagement of the Bank, what are the points to which you allude?—I allude to the fact that, from the beginning of the year 1847 up to April, the Bank permitted its banking reserve to undergo a continuous and serious reduction of amount, until it was brought down to a point which was unsafe, and therefore alarming.

5130. Up to what time do you consider that the conduct of the Bank was objectionable?—My objection applies to the first three months of the year 1847; during those three months, the Bank allowed its banking reserve to run down too low, and did not take the measures it ought to have taken to protect that reserve, the principal of those measures being, raising the rate of interest more powerfully and more rapidly than it did.

5131. From that time, after the difficulty of April was over, do you object to the course that the Bank took?—No; I think there is no serious objection to be urged to the conduct of the Bank after April.

5132. Your objections are confined to the conduct of the Bank during the three first months of the year 1847?—They are.

5133. What is the precise objection that you have to the course they took during those three months?—It was a course contrary to all sound principles of banking; the Bank of England during that period, kept increasing its securities, paying for those securities out of its banking reserve, the payment so made out of its banking reserve being immediately taken to the issue department, and gold taken for it; so that, taking the two departments

together, the result was that the Bank from the beginning of January to the middle of April, continually increased its securities, paying for those securities in gold, which gold was going out of the country; and it did that without raising its rate of interest in a manner sufficient to protect its banking reserve. Consequently, the market rate of interest during the whole of that time was above the Bank rate of interest, and so decidedly above it, that at last it became the common subject of remark by the whole commercial community of London, wondering why the Bank was not taking more effectual measures for protecting its banking reserve.

5134. You consider that from that step the difficulty of April mainly arose?—The abrupt character of it, I think, was produced entirely by that course.

5135. If the Act of 1844 was supposed to prevent the abrupt character of those difficulties, what advantage is there, if after all there remains in the hands of the Bank, the same power of producing the suddenness of the difficulty as existed before?—In reference to that question, we must distinguish between the management of the circulation and the management of the banking business of the Bank. Before the Act of 1844 was passed, the Bank was vested with the power both of mismanaging the circulation and of mismanaging its banking business; the Act of 1844 placed it out of the power of the Bank to mismanage the circulation, and in so far it was perfectly effectual in its purpose, but it left the Bank, as a banking concern, with full discretion to manage its banking affairs according to its own judgment; that is, it left

the Bank with the power of mismanaging its banking affairs, and of inflicting a serious injury upon the public.

5136. Then, in point of fact, the mismanagement of the banking department by the Bank of England, is productive, as far as the suddenness of the difficulty is concerned, of the same inconvenience to the public as was caused previously by their general mismanagement?—The mismanagement of the banking business of the Bank of England may certainly produce inconvenience in an abrupt form to the public, but still the effect of the Act is to protect the circulation; if the Act of 1844 had not been in operation in the spring of 1847, I apprehend that the course pursued by the Bank up to April would have been further pursued by the Bank, until the bullion then standing at about 8,000,000*l.*, had been reduced to 2,000,000*l.* or 3,000,000*l.*, and then you would have had a convulsion still more abrupt, still more severe, and rendered more oppressive in consequence of a further feeling being thrown into it of serious alarm as to the safety of the monetary system; from all those evils the Act has protected the public.

5137. The Bank in the one case has made convulsive efforts to maintain its reserve, and in the other case it would have made a violent effort to preserve its bullion; but the suddenness of the operation, so far as regards the inconvenience to the public, is very much the same in the two cases?—The efforts made by the Bank may still partake, more or less, of the character of suddenness, dependent upon the good or bad management of the banking department; but as those efforts must, under the

Act, be made at an earlier period than under the former system, I think they must necessarily be less violent and productive of less pressure. The Act of 1844, as regards the circulation, has fully accomplished its object. If we are discussing the question, whether it is expedient and safe for the public interests, that so large a body as the Bank of England should be left with power to mismanage its banking operations, that is a question which I apprehend should be kept separate and distinct from the mismanagement of the circulation.

5138. I will trouble you with a question upon that by-and-bye, but at present I will beg you to confine yourself to the powers that the Bank had before the Act of 1844 was passed; are you not of opinion that the Bank had always power sufficient in itself to preserve the convertibility of the note?—That is perhaps rather a difficult question to answer; when things are driven to the last extremity, the Bank has great power of acting; what would be the result of the full exercise of the large powers which it possesses, it would be very difficult for any person to say; credit would be convulsed, and in the general confusion, whilst the subordinate members of the community were sacrificed, the Bank might be saved; that is a probable result.

5139. As far as regards the foreign exchanges, they might have been brought right, if there had been no Act of Parliament, by an effort of the Bank itself?—Whenever the Bank makes a signal effort to realize its securities, the effect will be to rectify the foreign exchanges.

5140. And then a danger arises of panic?—Yes.

5141. And under the old system, the difficulty was to manage transactions in such a way as to set right the exchanges without producing an internal drain?—The objection to the old system was, that it did not create a necessity for any effort being made to adjust the exchanges, till the Bank had suffered the bullion to be reduced to an amount, which did not afford sufficient means for meeting with confidence an internal drain, should it spring up.

5142. Under the old system, the Bank neglected to take measures of precaution until its reserve of gold was low, and it was obliged, therefore, to take strong measures, and to produce very sudden and abrupt difficulties to the commercial world; under the present system, the difficulty of the Bank is, not with regard to its gold, but with regard to its reserve, and the Bank, according to your evidence, has followed exactly the same course with regard to its reserve, that it formerly followed with regard to its gold; it has neglected to take sufficiently early steps, and consequently has been obliged to take violent steps with regard to its reserve; and has it not, as regards the public, produced the same evil of abruptness, and of bringing on the difficulties with a suddenness which was unexpected when the Act of 1844 was passed?—Under the former system, the Bank was under no necessity of taking any precautionary measures until the bullion was reduced to a very low amount; under the Act of 1844, the Bank is obliged to take precautionary measures when the banking reserve is reduced to a low amount; now the banking reserve is reduced to a low

amount, at a much earlier period than the bullion is reduced to a low amount, and, therefore, the Act of 1844 places the Bank under the necessity of acting protectively at a much earlier period than it was compelled to act under the previous system; in so far, the Act of 1844 has compelled an earlier action; and in addition to its compelling an earlier action, as that earlier action must necessarily take place with a higher amount of gold, it protects you from all those further inconveniences which attended the feeling of apprehension with regard to a deficiency in the actual store of gold. That seems to me to be the difference between the Act of 1844 and of the previous system.

5143. There is not much difference in the suddenness of the action?—The suddenness of the action will still depend in a considerable degree upon the discretion of the Bank of England; the Bank may allow its banking reserve to be exhausted before it takes any precautionary measures, and then it must take sudden measures to protect itself; but even in that respect, the Act is a great improvement upon the previous system, and I think a proof of that is found in what occurred in the three first months of the last year. Under the present system, the state of the Bank's reserve is distinctly brought out, and is every week laid before the public; the public, therefore, know now, which they did not formerly, what the Bank's reserve is: they see that reserve diminishing, and the public, therefore, necessarily become apprehensive, and begin to take precautionary measures, even though the Bank neglect to do so. That actually

occurred during the first three months of 1847; the public were taking precautionary measures, and the public feeling was assuming a proper character of apprehension, even during the period that the Bank was neglecting its duty with regard to maintaining its reserve.

5144. As to the publicity with which the accounts of the Bank are now presented, do you believe that that has produced a beneficial effect upon the public?—I think the publication of the Bank accounts has been eminently useful.

5145. As a banker, in the transaction of your business, do you believe that that publication has been beneficial to the community?—I have not the slightest doubt of it; and I cannot give a better proof of my opinion upon that point than by producing this book which is made up from the Bank accounts, and I have this every day in my office to refer to for my guidance. I have given copies of this form of account to many bankers in the country, and they have been extremely obliged to me for putting them in the way of keeping it for their guidance.

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5149. Did you approve of the issue of the Government letter in October last, suspending the operation of the Act?—I feel that a person circumstanced as I am, living in the midst of the whole commercial community who were under the pressure, is the last person whose opinion can be safely trusted; subject to that remark, however, I am bound to say that I thought it was right, under all the circumstances then existing, to issue the letter.

5150. Why do you think it was proper to issue the letter?—It seemed to me that two considerations were essential, looking to the question of the issuing of the letter; in the first place, that it was absolutely necessary to be thoroughly satisfied that the state of things to which it was applied had assumed the decided character of real panic, and in the second place, that it was absolutely necessary to be well assured that the exchanges had turned in favour of this country; I felt satisfied upon both those points, and I felt considerable apprehension that the panic-feeling had reached that point at which it might produce, in the course of a few days, extensive confusion in the country; at the same time, I quite admit that it is possible that if you had persisted in maintaining the law, two or three days might have shown that it was not necessary to issue that letter; it is, I think, a matter upon which no person can give a confident opinion.

5151. You state that it was a time of extreme panic; do you consider that, in a case of extreme panic, the proper remedy is the suspension of the Act?—I do not think it is possible to give a general answer to the question as to what is the proper course to pursue under a state of extreme panic; it must depend entirely upon the peculiar circumstances of each case; under all ordinary circumstances of panic, I should say the safe rule was steadily to adhere to sound principle, but you may arrive at that stage of panic-feeling, in which the dangers of immediate inconvenience are more serious than the evil attending the suspension of the principle; with regard to the proper remedy for panic, I apprehend it is

impossible to give a general answer; for that which proves to be a remedy at one moment for panic, if applied the second time, may prove utterly inefficacious.

5152. In the case of extreme panic, do you consider that the Act can be left to its operation simply, without some measure interfering with the operation of the Act being adopted?—I think it is hardly right to call it an interference with the Act; so far as maintaining the convertibility of the note is concerned, the Act will under any circumstances remain perfectly efficacious; the only question is, whether periods may not arise of so peculiar a character that some extraordinary interposition on the part of Government may be desirable for the purpose of alleviating the pressure of an immediate and extreme difficulty. That intervention may assume the character of issuing notes which are not connected with the management of the circulation, strictly speaking, or it may assume some other form. On some occasions mercantile pressure has been alleviated by the issue of exchequer bills; the issue of exchequer bills on this occasion would have been useless, but it is impossible to say what would be the proper mode of meeting a commercial pressure till you have the special circumstances of that pressure before you.

5153. Was not the effect of the issue of the letter such as was wished for?—The effect of the issue of the letter was precisely what was contemplated and wished for.

5154. And the effect was immediate?—Yes, it was immediate.

5155. But you think, in a similar difficulty, the same remedy would not necessarily be successful?—I think it is very possible it might not be equally successful; I believe the novelty of the measure, the suddenness of it, and the bold character of it, were all essential ingredients in its success; but if it were to be repeated a second time all those ingredients would have lost a considerable portion of their power.

5156. *Sir William Clay.*] And if the exchanges had not turned in favour of this country, you would not resort to it?—I have already stated that the fact of the exchanges being in favour of this country was an essential preliminary to the adoption of the measure.

5157. *Chairman.*] In a case of extreme panic do you consider that it should be left simply to the operation of the Act, or do you not consider that there must be some extraordinary interposition on the part of the Government?—I must again rather object to the expression “leaving it to the simple operation of the Act;” as far as the maintenance of the convertibility of the note is concerned, the Act is perfectly efficacious, and perfectly safe, and requires no alteration under any circumstances; it is entirely a question of the condition of the mercantile community: circumstances may occur in mercantile affairs, and in the confidence on which mercantile affairs are based, of such a peculiar character, that some interposition may be desirable for the purpose of alleviating the intensity of pressure arising from destruction of confidence. That alleviation may in some cases be best found in an extra issue of notes, and in other cases it may

be best found in Government interposing in some other way to restore confidence, such as an issue of exchequer bills which has been tried with success, or it may interpose in some other mode; it is, in fact, interposing the credit of the Government in lieu of individual credit, which is supposed at the time to be temporarily annihilated.

5158. Do you think that in October the Act had any injurious effect upon the country?—I do not see in what way the Act had any injurious effect upon the country; I think the Act served the country most essentially by protecting, through the whole of the year 1847, the specie payments of this country in a manner in which they had never before been protected since they were determined upon in the year 1819.

5159. Do you believe that the letter issued in October produced its effect by acting upon the imaginations of men, or do you believe that it produced an effect upon the circulation?—I consider it quite clear that the effect produced was by acting upon the imagination of the community, for there was no actual increase of notes in the hands of the community; the notes previously existing in the hands of the public were perfectly sufficient for all purposes required, provided the public would use them with the same degree of confidence and facility, with which they had been in the habit of using them; from peculiar circumstances that confidence and that facility had been most materially disturbed, and all that was necessary was to restore the ordinary confidence and facility of using the existing notes in the hands of the

public; the issuing of the letter completely accomplished that purpose.

5160. Do you approve of the limit of the rate of interest contained in the letter?—The result showed that it was clearly sufficient.

5161. And you consider such a limit to have been necessary?—Certainly; it was quite essential.

5162. You think the result shows that the rate fixed was properly fixed?—Yes.

5163. You have used the term “circulation,” in your evidence; what do you consider the circulation now to be; do you consider the notes in the hands of the public to be circulation, or do you consider the notes as shown by the issue department of the Bank to be circulation?—The notes as shown by the issue department.

5164. Is that in conformity with your former opinion?—Yes.

5165. You could not, in old times, consider the notes out of the issue department circulation because they were not shown?—We could not tell what the amount was; because, previous to the Act of 1844, the Bank could issue notes to an unlimited extent so long as it had any bullion in its possession; but as a question of principle, I always considered that the notes in the till of the Bank of England and the notes in the hands of the public altogether constituted the circulation.

5166. In your former evidence before the Committee in 1841, you spoke of the circulation as including the notes in the till of the Bank?—Yes; I alluded to that in several parts of my examination in the year 1841.

5167. With respect to private banks, you regard the notes that they have in their tills as circulation also?—Yes.

5168. What do you consider with regard to their own notes, which they have the power of issuing?—I think with regard to private banks, looking at it as a question of principle, the notes which they are empowered to issue constitute circulation.

5169. Though not actually issued?—Yes.

5170. You consider them part of the notes in their till?—I consider that that which is at the control and command of the public is circulation, wherever it may be lying.

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5179. I collect your opinion to be that the suddenness of the difficulty (in 1847) arose from the Bank Directors neglecting to take proper steps with regard to its reserve; is there any measure which you can suggest by Act of Parliament which can cure that evil?—No; I am not prepared to suggest any.

5180. Do you consider that the constitution of the Bank can be so changed as to prevent the liability to such an error recurring?—No; I have often thought of the constitution of the Bank, and of course I cannot undertake to say that it is perfect at present; at the same time I am unable to suggest any important improvement.

5181. Do you think that having a permanent chairman is such an improvement as would guarantee the public a better management of the Bank?—Many diffi-

culties would attend the appointment of a permanent chairman; I am not prepared to say that that would be a desirable measure.

5182. Do you think that placing in the direction parties appointed by the Government, in more immediate communication with the Government, and of a permanent character, would be an improvement in the constitution of the Bank of such importance as to make it worth while to make the change?—I do not feel at all confident that that would be a satisfactory arrangement.

5183. Then there is no alteration in the actual constitution of the Bank that you would feel prepared to recommend?—No; I am not prepared to recommend any alteration in the constitution of the Bank.

5184. Are you satisfied, then, with still leaving it in the power of the Bank to produce, by its mismanagement, the difficulties which you seem to think followed from their conduct at the commencement of the last year?—I think we may reasonably expect that those effects will be diminished, as the result of experience, founded upon the events which have occurred during the year 1847; that was the first period of difficulty and trial under the operation of the new system, and therefore, of course, we might reasonably expect many mistakes, which I think will be rectified hereafter; I have very little doubt that the importance of looking to the state of the Bank reserve is much better understood now, both by the Bank and by the public, than it was at the commencement of the year 1847; and I think we may hereafter

reasonably hope for more wise measures of precaution with regard to the protection of the reserve.

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5192. The Act of 1844 was supposed to have released the Bank from any necessity of attending to the public interests, and it was supposed that the Bank was at liberty practically to look to its own profits, and not to the general interest of the public; was that your impression of the operation of the Act?—In a certain sense of the word, I think that is correct; it is desirable so to organize all public institutions, that looking to their own interests wisely and discreetly, and taking a sufficiently comprehensive view of them, will be the best course not only for their own but for the public interests also. At the same time, the Bank, from the great magnitude of its resources and transactions, stands in a peculiar position. The Bank, to whatever extremity it may allow its banking means to be reduced, can, by the very magnitude of its operations, in the last extremity make an effort which is almost sure to protect itself; but that effort will entail upon the community very serious consequences and produce very great mischief; in that respect the Bank seems to me to differ considerably from all private concerns. If I mismanage my private bank I am ruined, but the public sustain little inconvenience; but if the Bank of England commits some great mistake, the Bank can save itself, whilst it spreads extensive injury throughout the community; in that respect, I think it differs in an important sense from a private concern.

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5194. *Mr. Wilson.*] You stated that, prior to the Act of 1844, you considered the word "circulation" to include as well notes in the hands of the public as the reserve of notes in the till of the Bank, only that the reserve was not then specified?—Yes.

5195. But I think that all the evidence which was given before the Bank Committee of 1840, and all the discussion which preceded that Act, in arguing upon the circulation, were confined to the notes actually in the hands of the public?—You will find many answers in my evidence, in the year 1841, in which I distinctly referred to the notes which are in the Bank till, and in which I stated that it was an unfortunate circumstance attending the then existing system that we had no means of knowing what the amount of those notes was, and therefore we were obliged to reason upon uncertain data; there was certainly no possibility of dealing with anything but the notes in the hands of the public, but I stated that the notes in the Bank till constitute a part of the circulation, and that when the accounts were separated they would so appear.

5196. You say that there was no possibility of knowing what the amount of reserve was then, because there was no possibility of knowing the quantity of notes at the disposal of the Bank in their till?—No.

5197. Do you not consider that the actual reserve held by the Bank was really the bullion which it held in its possession ready to meet its liabilities?—The case was altogether anomalous on account of the defective state of the law; the Bank, under the system which existed before

the Act of 1844, had the power of making unlimited issues, and that power only ceased when their gold was exhausted; those were the facts; what language precisely to apply to those facts I really cannot say, but that was the state of the case.

5198. Prior to the Act of 1844, the liabilities of the Bank consisted of two classes; first, liabilities in the shape of deposits, and, secondly, liabilities in the shape of the circulation of notes in the hands of the public; before the Bank Act of 1844 those two classes of liabilities, which the Bank could be called upon to pay on demand were really protected only by the amount of gold which it held in its possession as reserve?—They were further protected by the whole amount of the securities which the Bank held; but there is an important distinction between the functions of Bank notes, considered only as part of the general liabilities of the Bank, and the same notes, considered as constituting the circulation of the country.

5199. I wish to confine your attention exclusively to the power of the Bank to meet its liabilities; that is dependent upon the amount of gold which the Bank has in its possession to pay the liabilities which it may be called upon to pay on demand; it cannot pay those liabilities by any securities that it holds?—According to the ordinary interpretation of language, the amount of means which the Bank has of meeting its liabilities consists in the amount of property which it has to meet them; for instance, I should, as a banker, feel myself competent to meet any liabilities, though I had not a sixpence of coin,

if I had securities which I might at any moment realize in order to meet my liabilities.

5200. But a banker cannot call that reserve, inasmuch as the banker must convert the securities before he can meet his liabilities with them : the amount of reserve is the amount of means that he has in his possession at his own command to meet the demands which the public may make upon him at their pleasure ; if he has first of all to convert the securities it becomes another operation ?— It depends entirely upon what it is we are talking of ; the money which the banker has in his till is one means of meeting his obligations, and his power of augmenting that command of money by the realization of securities, is another means.

5201. In the case of private banks, I believe the practice is that the private banker holds a certain reserve of money in his till, and he also holds a certain amount of reserve in the Bank of England, irrespective of the amount of securities which he can realise ?—There is no doubt that any person who has outstanding liabilities to meet keeps not a certain but an uncertain amount of actual money to meet those liabilities, an uncertain and varying amount, according to the circumstances of the case ; and beyond that he keeps an amount of securities more or less realisable ; and that I apprehend to be the state of the Bank of England ; in order to meet its outstanding liabilities, it keeps a reserve of a certain portion of money actually at its command, and a much larger amount of securities, with the power of converting them into money with more or less facility.

5202. You do not include in the Bank reserve the securities which the Bank holds, which it would be necessary to convert into notes or gold before they could be made use of, to meet liabilities?—No; what we call the reserve of the Bank of England is coin or notes, which are kept in the Bank till, as distinguished from the securities which it holds.

5203. Under the old mode, in which the Bank accounts were kept, as there was no distinction between the issue department and the banking department, the reserve resolved itself entirely into the amount of bullion which the Bank held?—Yes, I apprehend it was so, because the notes that the Bank held did not appear in the account; it is entirely a matter of account; the notes which the Bank held in their drawer would appear nowhere in the account; therefore the bullion would appear to be the only money in the Bank; but any practical conclusion deduced from that, would, I apprehend, lead to error.

5204. As the amount of notes which the Bank has the power of issuing now depends upon the quantity of bullion that they have in their possession, so, in fact, the quantity of notes is at the present moment another name for the bullion that they hold in their possession?—The facts of the case are these: the Bank now has in its bank till an amount of notes equal to the whole amount of bullion in the issue department, plus 14,000,000*l.*, and beyond that amount the notes of the Bank cannot go; if any diminution of the bullion in the issue department takes place, a corresponding diminution must take place in the amount of notes in the till of the Bank of England;

that is the position of things under the present system. Under the former system the state of things was extremely different; a great alteration in the amount of bullion might take place without any contraction whatever of the power of the Bank of England to issue notes; the Bank of England under the former system, might be considered as having an unlimited quantity of notes in the Bank till so long as there was any bullion whatever in its possession; under that system, so long as the Bank of England had any bullion with which to pay the notes when presented for gold, she had an unlimited power of issuing her notes; now she has not.

5205. The issuing of notes now depends entirely upon the increase or decrease of the quantity of bullion held by the Bank?—The quantity of notes now varies entirely with the state of the bullion.

5206. Seeing that formerly the Bank was obliged to pay its notes in bullion, if the Bank had paid proper attention to the obligation that it had to pay those notes, and not to stop payment, would not the Bank's holding at all times a sufficient reserve of gold practically have had the same operation upon the action of the Bank as the operation of the Act of 1844?—The gist of the question turns entirely upon the supposition involved in it, viz., that the Bank paid proper attention to the obligation which it had to pay its notes; and under that supposition it is perfectly true that the operation would be the same as under the Act of 1844; and that at once brings out the distinction between the Act of 1844 and the previous system. The Act of 1819 ordained specie payments, but

it took no measures towards securing or carrying out that ordinance. Then the Act of 1844 rendered compulsory the measures which were necessary for securing the convertibility of the notes; if, therefore, you put a case which involves the supposition that the Bank previously did all that it was right for them to do to carry out the Act of 1819, then upon that supposition the course of things preceding the Act of 1844 will be identical with the course of things under the Act of 1844: but we had repeated experience that that could not be relied upon, and that the Bank repeatedly failed in doing what was wise and necessary, and that caused the passing of the Act of 1844. The Act of 1844 is based upon the assumption that repeated experience had proved that that which it was wise and necessary to do in order to secure specie payments had not been done, and it was passed to secure that henceforth it should be done.

5207. Then the Act was passed with a view to make the Bank of England do, under the Act of Parliament, that which they had not formerly done, in the exercise of a wise discretion?—It was passed for the purpose of securing by law the proper course being taken for protecting the convertibility of the note, which we had found, by previous experience, could not be safely entrusted to any discretionary action.

5208. The Bank of England never failed to pay its notes?—The Bank never actually failed to pay its notes, but it repeatedly failed to resort to timely measures of precaution; the Bank was more than once driven to the last extremity as regards the state of the bullion, and the

public was subjected to those extreme severities which become necessary to ward off danger in its last stage. The principle upon which the Act was passed, was that of protecting the public *non solum a calamitate, sed etiam calamitatis metu*.

5209. Do you think that we were ever subject to a greater degree of pressure for the purpose of warding off evils which might have arisen from the indiscretion of the Bank, than we were last year subject to for the purpose of protecting the integrity of the Act of 1844?—If you mean to ask me whether the country was ever subjected to a pressure greater than it was subjected to in 1847, I have no doubt that it has on many former occasions been subjected to greater pressure.

5210. What periods do you allude to?—In 1783, 1793, 1797, and 1825, and I have considerable doubt whether there were not other intervening periods that might be put into that class.

5211. You have great confidence that the experience of last year will materially aid the Bank directors in future in acting more discreetly and wisely, so as to prevent the necessity of interference with the operation of the Act in future years?—My former answer had reference to the management of the banking department. I think the experience of last year will lead to more caution with respect to the Banking reserve.

5212. You would consider that keeping a proper reserve was part of the management of the Banking business?—Yes.

5213. I understood you to say, that one of the circum-

stances which aggravated the panic of 1847, and which rendered the interference of the Government necessary, was the Bank not paying sufficient attention to their reserve?—The interference of the Government took place in October; the neglect of the Bank in protecting the reserve, which I spoke of, had reference to the spring of the year.

5214. But I understood you to connect the effect resulting from that neglect of the reserve in the early part of the year with the crisis in the autumn?—No; the pressure which occurred in the autumn, in addition to the legitimate pressure, which was absolutely inevitable, I attribute to the state of alarm which was caused by the extensive commercial failures which occurred at that time.

5215. Would you not have had some confidence, had the discretion been left in the hands of the Bank, as it was prior to the passing of the Act of 1844, that the experience of the Bank directors in 1837 and in 1839 would have prevented the recurrence of such pressures as existed in those years?—No, I think that the actual occurrences of the spring of 1847 completely negative any supposition of that sort. In the spring of 1847 all the discretion that was left to the Bank was completely abused; we have the clearest evidence that nothing induced the Bank to stop short in April in the career they were pursuing but the absolute provision of the Act of 1844; if that provision had not been in existence, we have every right to presume, from existing facts, that the Bank would have continued through the month of April and onwards, in further increasing their securities, the result of which would have

been a further decrease of the amount of bullion until it was reduced, as on former occasions, to that low point at which the public takes alarm, and the most abrupt and severe measures of protection become necessary. To the extent to which the Bank directors were empowered to go wrong they went wrong, and if it had not been for the provision of the Act of 1844, it seems to me that it is a matter of inference clearly to be deduced from the facts, that in the course of two or three months we should have come to an actual suspension of specie payments, or at least to the very verge of that catastrophe.

5216. You do not think that the Bank directors, observing the fact of their liabilities increasing, and there being a diminished quantity of bullion, and, therefore, seeing the evident danger into which they were running, would have had any effect in checking their career, had it not been secured by the Act?—It seems to me to be a matter of the clearest inference, that but for the positive provisions of the Act, the course pursued by the Bank from January to April would have been continued until the bullion was all but exhausted.

5217. They had allowed the reserve to sink to a certain point when they took measures to protect it; but it is not a matter of fact that they would have gone further in the same direction if the Act had not existed? The matter of fact is this, that from the beginning of the year 1847 up to April they went on on this system, viz., of continually increasing the amount of their securities, and paying for them by a continual drain on the Bank reserve, which led to a continual export of the same

amount of gold, and they pursued that course till they had reduced the reserve to that point at which it became the subject of general remark and alarm. The Bank then suddenly paused; declared that it could do no more for the public, but must now take care of itself; and it was that understanding pervading the public mind that produced the temporary panic of April.

5218. Did they not take steps for the purpose of checking the reduction of bullion, by raising the rate of interest, twice in January, and once in the beginning of April?—They did take a step in the right direction, but the feebleness of that step was quite puerile, as compared with the magnitude of the evil which they had to deal with.

5219. But they did show they were alive to the necessity of curtailing their advances and of checking the facilities which they were giving to the public by the steps they were taking, and is it not fair to suppose that, in proportion as they found those efforts were not effectual for the purpose they had in view, they would have taken stronger steps?—Of course I cannot pretend to say what they would have done; I can only say that during the circumstances spoken of in the first three months of 1847, which required the most determined measures, the steps taken by them in the right direction were so slight and so feeble as to be perfectly ridiculous in reference to the character of the evil which they had to deal with. The course pursued by the Bank from January to April, 1847, verifies the principle upon which the Act of 1844 was founded, viz., that the

protection of the specie payments of the country is a matter that could not safely be entrusted to anybody, but that it is absolutely necessary to lay down legislative regulations, which will, of themselves, secure that object.

* * * *

5240. Supposing the Bank increases its circulation in order to pay the dividends, does it not diminish one liability in proportion as it increases another?—Now we are blending two things together, which I apprehend ought to be kept separate—the liabilities of the Bank in the banking department, and the amount of the circulation.

5241. I wish to look at the liabilities of the Bank as a whole, and its deposits and its circulation as a whole?—But its circulation I do not admit to be part of its liabilities, the notes issued by the Bank of England are no more part of the liabilities of the Bank, than a Bank note which I may have issued for the payment of my own expenses; the notes are provided for by the currency department.

5242. You mean that the banking department does not increase its liabilities?—Exactly.

5243. But I speak of the Bank as a whole?—Then I cannot agree in so speaking of it, because I shall, in doing so, get into confusion; and that only shows how very serious the evil is of having the two departments in the same building; the issue department has nothing to do with the Bank of England; the issue department might be at the Treasury, or at Somerset House, or at York; it has nothing whatever to do with the Bank of

England ; the issue department has a certain quantity of bullion, and it issues a certain quantity of notes ; the Bank of England has at its command a portion of those notes, and I have a portion ; I do not increase my liabilities by using those notes, nor does the Bank of England increase its liabilities by using those notes.

5244. But though the Act of 1844 required a particular division of the accounts of the establishment, legally speaking, it is one establishment, with an entire amount of liabilities, and an entire amount of assets ?—I am not competent to say what it is legally, but practically that is not the case ; and any reasoning deduced from that will inevitably lead to very erroneous conclusions.

5245. But I am speaking of the merits of the Act of 1844, and it is impossible that we can confine ourselves to the regulations which that Act has made, because we must compare them with what the state of things would be, irrespective of those regulations : and therefore it is necessary that we should see what the action of the Bank would be, taking the Bank liabilities as a whole, and the Bank assets as a whole ?—It is perfectly proper to compare the operation of the Act of 1844, upon the management of the circulation, with what would be the operation of the system existing before 1844, and for that purpose to assume that the system existing before 1844 had continued in existence up to this time, and any conclusions drawn from that I do not at all object to, but my objection was intended to be directed against our assuming that, under the Act of 1844, things were in the state in which they would have been if the Act of 1844 had not

been passed ; when you are speaking of the effects of the Act of 1844, I object to mixing up the currency department with the banking department ; but if you wish to trace out what would have been the operation in the year 1847, of the system under which those two departments were blended together, supposing the Act of 1844 was not in existence, to that I do not object, and I am quite ready to enter into that question.

5246. The practical object I had in asking the question was this : the Bank Act of 1844 considers as essential, that the circulation of notes shall be confined to a certain amount, at all times, irrespective of the character of the circulation, or the objects for which the notes are issued ; I want to ask your opinion, whether, for the temporary purpose of paying the dividend, when it was well known to the Bank that they must receive those notes back again within a few days, in the repayment of the advances which they had made, it was as necessary for the Bank to observe strictly the same rule which the Bank Act of 1844 imposes, as it would be if those notes were issued in the ordinary way in the discount of bills, or for any other purposes ?—To that question I answer distinctly, yes ; the payments with regard to the dividends, or the payments which may arise for other purposes, such as prompts upon duties and payments upon railroads in the early part of 1846, and instalments of loans and so forth, are all payments which ought to be met, and can be easily met by judicious banking arrangements ; and the Bank of England, I am sure, is perfectly competent to make arrangements which shall enable them

to meet those payments with perfect safety and without any serious inconvenience ; that object is easily attained by judicious banking arrangements, and it would be highly objectionable to meet that by any tampering with the currency.

5247. In what respect do you consider it would be tampering with the currency, provided the Bank were to issue further notes for the purpose?—I call tampering with the currency, the issuing of notes without reference to the variations in the bullion. It seems to me that if you once introduce that principle, you inevitably introduce great uncertainty into the management of the circulation ; the application of that principle will be called for on every occasion, without any adequate necessity, and for the purpose of removing difficulties for which banking arrangements are the appropriate remedy, and may most easily be rendered an efficient remedy.

5248. Would not the issue of notes in that case be precisely of the same character, as the transfer of an amount from one account to the other by means of checks or by means of credits?—That tends to raise the whole question which we had in 1841 to satiety, namely, the identity of Bank notes with deposits and checks, and so forth ; I think the differences are very distinct and very marked, but if transfers in account will answer the purpose, let them be used ; I have no objection to it ; but it is an additional reason against the expediency of resorting to an extra issue of notes. Transfers in account are a mode of economizing the circulation, and may be applicable to meet the difficulty ; but I feel convinced that

simple banking arrangements are entirely adequate, and we have never had any difficulty in the payment of the dividends which was of sufficient importance to require any further measure. I consider the banking arrangements are sufficient to meet every difficulty connected with those or any similar payments.

5249. The best evidence that banking arrangements are not adequate to those operations is, that during the payment of the dividends, the circulation does invariably considerably increase for a temporary period?—I take that as a proof of what I say, that the banking arrangements are sufficient; the reserve of the Bank, to a certain extent, is applied to meet the difficulty; the notes in the till of the Bank are diminished, whilst the notes in the hands of the public are increased for a short period; and by this most simple and appropriate banking arrangement, the payments in question are effected without any disturbance in the market rate of interest, without inconvenience to the public, and without any interference with the principles by which the management of the circulation ought to be regulated.

5250. You were asked some questions with regard to deposits in Manchester and in London; is there not a very wide difference in the inference to be drawn from the two accounts that you have been asked to be good enough to render to the Committee, namely, the variations in the amount of deposits in Manchester and the amount of deposits in London, for this reason, that in Manchester the whole of the reserve of your customers, from one period to another, show themselves in the shape

of deposits in your hands, whereas in London, the deposits of your customers are almost uniformly the same, merchants being in the habit of keeping their reserve rather in the shape of bills, which they discount from time to time in order to meet their engagements?—I fully agree in most of the views that the question assumes; the deposits with London bankers are of a totally different character, and the word “deposit” is rather an incorrect term to apply to them; they are monies kept with the bankers, by their customers, as the peculiar form of paying the banker for doing their clerical business; you will not find that the fluctuations in the amount of deposits with London Bankers are nearly so great as the fluctuations in the amount of deposits with country bankers.

5251. Therefore the fluctuations in the amount of deposits in London would form no indication whatever of the fluctuations generally?—No; it will be information very little worth attending to.

5252. And the fluctuations in the amount of deposits at Manchester are the fluctuations upon the deposits of all classes of customers?—Yes, they include equally the deposits, properly so called, and the mercantile or trading balances.

5253. You stated that you thought the magnitude of the Bank of England was one reason why it should conduct its business somewhat differently from any other banking establishment?—More under the influence of fixed rules, was the expression I used.

5254. You gave as a reason, that at a period of pres-

sure the magnitude of its transactions is so great, that it has a power to interfere for its own protection, to the disadvantage of the public, which private bankers have not? —Yes; I spoke with a reservation, rather as giving an opinion than a decided judgment; I think the effect of the magnitude of the Bank is, that it can throw the effect of its mismanagement more upon the public and less upon itself, than a private concern can do.

5255. Do you think that that can be mitigated by the Bank of England being deprived of those peculiar advantages which it enjoys under the Acts of Parliament, and by those advantages being thrown more open to competition?—I am hardly prepared to state what consequence my opinion leads to.

5260. Sir *James Graham*.] In reference to the management of the Bank, would you consider it politic or expedient, that for any considerable period of time the Bank rate of interest should be below the market rate?—I do not think that for any length of time the Bank has the power of regulating the rate of interest; the Bank rate can only be below the market rate for that period which shall enable the public, by taking a cheaper article, to exhaust the supply of the Bank.

5261. You say that, of late years, the Bank has become more of a competitor in discount business than formerly?—Yes.

5262. Is that marked by their keeping their rate of interest lower, as compared with the market rate, than heretofore?—By conforming to the market rate more than formerly they did. The Bank rate formerly was

4 or 5 per cent. ; if the market rate of interest was below 4 per cent., the Bank ceased to discount till it got up again to that point ; but in point of fact, latterly, the discount department has become a very active department of the Bank.

* * * * *

5279. Sir *William Clay*.] You consider that such a panic as we experienced in October, 1847, might occur under any conceivable system of currency?—Yes.

5280. And being fortuitous, and depending upon abnormal circumstances which could not be predicated, it must be met by abnormal remedies, and, to a certain extent, empirical remedies?—I think the introduction of a relaxing power into the Act would very much interfere with the object for which it was introduced ; it seems to me that, in the first place, if you introduced a relaxing power into the Act, there would be very great danger of its being resorted to unnecessarily, prematurely, and therefore, very perniciously ; and, in the second place, I think, that the known existence of such a relaxing power would encourage persons to abstain from those which are the legitimate means of correcting a drain of bullion, and alleviating monetary pressure, and would thus increase the probability of those occurrences which would render the resort to the relaxing power necessary ; and, thirdly, the introduction of such a provision into the Act would very materially diminish its efficiency when applied ; I think its efficacy will be found to consist in a great degree in the unusual, unexpected, bold, and impressive character of the step, and of course the introduction of a special provision

in the Act will tend seriously to weaken those, the vital characteristic of the measure, when resorted to.

5281. You would wish, in short, the constant impression upon the public mind to be, that there is no other resource than the money which is in the country, which flows in by the natural operation of the laws which regulate the influx of the precious metals, and you would be content with leaving in the hands of the responsible Government, the meeting any such state of panic as may arise under any system of currency?—I think the wisest course is to leave the law as it stands, impressing upon the public, to the utmost extent to which it is possible, that they must manage their affairs under all the regulations and restrictions which a metallic currency is subject to, and if circumstances of a very extreme character should again arise, it is the duty of the Government to judge of the necessity of the emergency, and of the appropriate remedy: it does not at all follow that when this necessity arises, which is very rare, the proper remedy will be an increase of the circulation; the remedy may be very different on another occasion if it should ever occur.

5282. Do not you think it might tend to a more wholesome state of feeling in the public mind, if the issue of notes were separated from the Bank, and taken out of their hands?—Yes, I think so.

5283. It might be made a department of the State, or some department connected with the State, and kept wholly free of the Bank, leaving to the Bank of England their functions as the bankers of the State, but taking wholly out of their hands the issue of notes?—I think

the more the management of the circulation is separated from the banking business, not only in reality, but in appearance, the more beneficial it will be to the public interest.

5284. Sir *James Graham*.] If the Government had not issued the letter in October last, the Governor of the Bank has told us that if the pressure upon their resources had continued, it would have been open to the Bank direction to have sold 1,000,000*l.* of stock at that precise time; is it your opinion that that resource was available? —Yes, I think it was.

5285. You concur in the opinion, that the Bank might have sold 1,000,000*l.* of stock, even at that time?—I think they might.

5286. What would, in your opinion, have been the effect, supposing they had sold it, and had been able to realize it upon their credit?—It is impossible for any person to say what the effect would have been; it is a matter of guess; when you are dealing with a state of panic-feeling, you are dealing with that which is not, by the very statement of it, amenable to reason. The sale of such an amount of stock, might have frightened the public; or the idea of the Bank realizing securities to that extent, and increasing the amount in the hands of the public for commercial purposes, might have produced a very beneficial effect; it is impossible to say what would have been the result; but if the letter had not been issued, it would have been the duty of the Bank to have sold stock and tried the consequences; and I think

it is very possible they might have been beneficial consequences.

5287. In what respect do you think the consequences might have been beneficial?—I always consider that a panic-feeling is quite sure to exhaust itself in a little time, and that the result of a manly perseverance in the right system, is very likely indeed to break down the panic; but at what particular stage no person can say.

5288. If a sale by the Bank of England of so large an amount as a million of stock, and the fact of the sale being made by the Bank could not be concealed, had had the effect of increasing the panic, would not the convertibility of the note have been endangered by that very circumstance?—No; whenever you are speaking of the convertibility of the note, I think you must clearly distinguish between two different causes of danger to the convertibility; one is the danger from the unsound state of the foreign exchanges and the exhaustion of the gold of the country, the other is the danger arising from internal panic and the demand of the public for gold instead of Bank notes. The first class of danger is one that is capable of being dealt with on principle, and therefore for that danger of non-convertibility the Legislature has provided. The other cause of danger it is impossible to deal with; there is no effectual mode of guarding against the non-convertibility of the note from internal panic, except that of not issuing notes upon securities; the more you issue notes upon securities only and not upon bullion, the more you increase the danger of risking the converti-

bility of the note by internal panic ; then it only remains to you to make that danger as little as you can. The Act of 1844 reduces the danger to the minimum, because, in the first place, it secures the bullion of the country from exhaustion by the foreign exchanges, and it secures the maintenance, as far as the foreign exchange is concerned, of a very large amount of bullion in this country. The maintenance of a large amount of bullion in this country gives you a double protection against the non-convertibility of the note ; the maintenance of a large amount of bullion in the country renders it much less likely that a panic-feeling with regard to the note should arise, and if, from other causes it should arise, a large amount of bullion places you in an advantageous position to meet it ; beyond this there can be no further protection to the convertibility of the note against the danger from internal panic, except that which is to be found in diminishing the amount of notes issued upon securities only.

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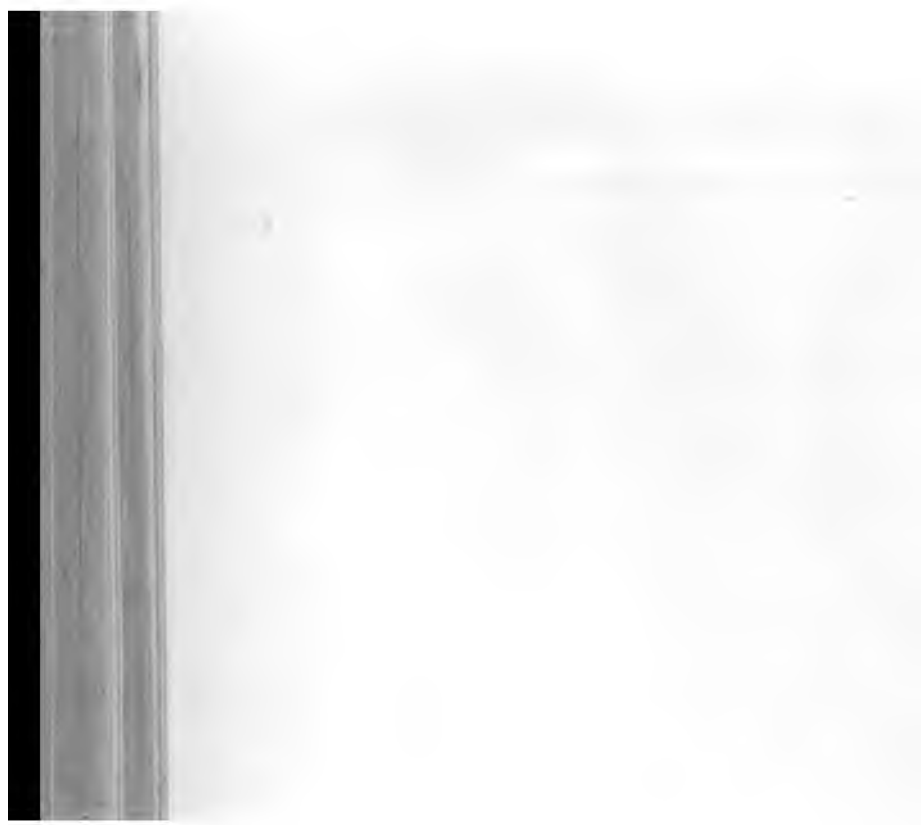
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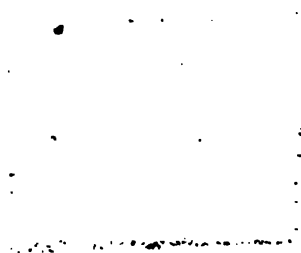
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